This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.

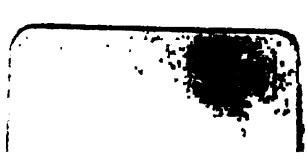
+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.

+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.

+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at `http://books.google.com/`



Y4.Ag 8/1: F98/4

FUTURE TRADING

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

H. R. 168, by Mr. Dickinson
H. R. 231, by Mr. Haugen
H. R. 2238, by Mr. Osborne
H. R. 2331, by Mr. Steenerson
H. R. 2363, by Mr. Tincher
H. R. 5228, by Mr. Evans

APRIL 25, 26, 27, 28, 29, AND MAY 2, 1921

Series C

WASHINGTON
GOVERNMENT PRINTING OFFICE
17653 1921

COMMITTEE ON AGRICULTURE.

HOUSE OF REPRESENTATIVES.

GILBERT N. HAUGEN, Iowa, *Chairman.*

JAMES C. McLAUGHLIN, Michigan.
CHARLES B. WARD, New York.
FRED S. PURNELL, Indiana.
EDWARD VOIGT, Wisconsin.
M. O. McLAUGHLIN, Nebraska.
CARL W. RIDDICK, Montana.
J. N. TINCHER, Kansas.
T. S. WILLIAMS, Illinois.
J. H. SINCLAIR, North Dakota.
EDW. D. HAYS, Missouri.
CHARLES J. THOMPSON, Ohio.
FRED B. GERNERD, Pennsylvania.
FRANK CLAGUE, Minnesota.
JOHN D. CLARKE, New York.
J. KUHIO KALANIANAOLE, Hawaii.

H. M. JACOWAY, Arkansas.
JOHN W. RAINEY, Illinois.
JAMES B. ASWELL, Louisiana.
DAVID H. KINCHELOE, Kentucky.
MARVIN JONES, Texas.
PETER G. TEN EYCK, New York.

L. G. HAUGEN, *Clerk.*

CONTENTS.

Statement of—	Page.
Hon. J. N. Tincher	5
B. C. Marsh	25
Hon. N. B. Dial	27
Hon. L. J. Dickinson	39
L. E. Potter	54
C. M. Bendixen	60
Hon. J. G. Strong	64
F. B. Wells	67
Charles Quinn	100
N. L. Moffitt	117
J. P. Griffin	149
H. R. Devore	200
C. H. Wright	203
G. F. Ewe	204
B. P. St. John	215
Chas. Kenning	222
C. W. Derr	237
W. H. Marshall	250
J. M. Russell	268
Hon. R. E. Evans	287
T. C. Atkeson	299
Dr. O. H. Lloyd	305
G. P. Watkins	309
Gray Silver	319
W. T. Chantland	319
Secretary Henry C. Wallace	325
Chester Morrill	344
R. E. Smith	347

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Monday, April 25, 1921.

The Committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

There were also present the following members of the committee: Mr. Haugen, Mr. Ward, Mr. Purnell, Mr. Voigt, Mr. McLaughlin of Nebraska, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Clague, Mr. Clarke, Mr. Jacoway, Mr. Aswell, Mr. Kincheloe, Mr. Jones, and Mr. Ten Eyck.

The CHAIRMAN. The committee has met this morning for the purpose of giving consideration to legislation affecting future trading. There are a number of bills pending before the committee, as follows:

H. R. 168, introduced by Mr. Dickinson.
H. R. 261, introduced by Mr. Haugen.
H. R. 2238, introduced by Mr. Osborne.
H. R. 2331, introduced by Mr. Steenerson.
H. R. 2363, introduced by Mr. Tincher.

The committee will hear, on April 25, 26, and the afternoon of the 29th, proponents of future-trading legislation; and on April 27, 28, and the morning of the 29th, opponents of future-trading legislation.

Mr. Tincher, are you ready to go on now?

STATEMENT OF HON. J. N. TINCHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS.

Mr. TINCHER. Mr Chairman and gentlemen of the committee, I do not claim that the bill introduced by myself has had any more careful consideration, perhaps, than a number of the other bills that were pending before this committee, but after the board of trade resumed trading in grain futures last August it was apparent to everyone that knew anything about the grain business that there was something wrong in our marketing system of grain.

We had had during the war trading in grain futures suspended by law, or by orders of Mr. Barnes, the man in charge of grain, and after the war that order continued and they did not begin again until last August. The day they began operations we commenced to have the old 10 cents and 20 cents and 30 cents a day fluctuation in the grain market, sometimes up and sometimes down, but always to the detriment of the two classes of people who should be respected by good government, and whether it was up or down, it was always to the detriment of the farmer. If it was up it was to the detriment

of the farmer who sold his grain the day before, and if it was down it was to the detriment of the farmer who was going to sell some the next day; and it was always to the detriment of the consumer and always to the benefit of the pure and unadulterated gamblers in food products.

I do not think the fluctuations in the grain market were caused entirely by the gambling in grain futures, and I do not think the stopping of gambling in grain futures will have as much effect upon the grain market as some people think, but I do know from the evidence we have had before this committee that it will have a material effect and a beneficial effect upon the producers of this country and upon the consumers.

The first bill which I introduced might have been termed a radical bill, and still not as radical as some proponents of this kind of legislation advocated. At first I thought we should limit the legitimate dealer in grain to trading in three times the volume of grain that he actually handled.

In the hearings before this committee we had the best informed men in the world upon the subject of trading in grain futures. I do not think anyone will question the fund of information of the president of the Chicago Board of Trade or the Kansas City Board of Trade or the Northwestern Board of Trade. We had Mr. Barnes and we had Mr. Hoover, and we had Clifford Thorne, who, I think, has informed himself probably the best of any man in the United States on this subject, who has never had any actual contact with it, and I have prepared a new bill which is not as drastic a measure and is intended to meet the legitimate objections, as I view them, that were presented in the testimony before this committee.

The new bill does not exactly comply with the ideas of any one of those men because no two of them exactly agreed on just how to handle the matter. Mr. Hoover, you will recall, those of you who were on the committee at the time, thought that perhaps the proper way to reach it was to limit the amount of grain, say, to 200,000 bushels, or something like that, that any one firm could handle. I think Mr. Barnes and Mr. Thorne and the other well-informed gentlemen rather discounted that idea; at least, I was not willing to exactly follow it and I do not think Mr. Hoover was so very enthusiastic about it. I do not think that would be practicable. I do not think it is practicable to limit the number of deals a man actually engaged in handling grain can have or the quantity he can have; but I believe it is possible to absolutely stop gambling in grain futures by the measure we have before this committee at this time.

I know there is a sentiment and feeling in the country against what has been called the licensed system, and I know there is great sentiment in the country against Government in business, and I have tried to avoid both of those propositions in the preparation of this bill.

I am against Government taking part in business unless it is absolutely necessary that Government should take a hand in business. I do not think any good thinking American will at this day and time criticize the Government for taking part by law in the operation of the common carriers. I rather doubt if any good thinking American citizen would want to go back to permitting the common

carriers to operate as they would see fit, fixing their own rates, etc., although I know that at the last session of Congress some members of this committee rather thought that would be a good idea; but I do not believe serious thinking men would now want to do that. I do not believe any good thinking American citizen would resent now—of course, they did at the time—the interference by Government in the Louisiana lottery, which was a gambling institution which undoubtedly had many advantages of the gambling institutions that are to-day gambling in the food products of America. I do not, however, think anyone would want to go back to that. I know what the argument was. I know it now better than I ever did before, because during this vacation I had the pleasure of visiting a Government that thinks it would fall to-day if they were to do away with the lottery. There are Republics in the world to-day that have the old Louisiana lottery and worse, that think the Government would fall if their congress should pass a law doing away with the sale of lottery tickets and the dealing in a lottery; but I do not call that Government in business.

I think the Government has furnished and will continue to furnish the best brotherhood for men of any organization in the world, and in the bill I am going to present to this committee and ask for a favorable report on I am not seeking to have the Government interfere with business, but I am seeking to have the Government interfere and put a stop to a bunch of gamblers, whether they do it under the name of speculators or dealers interfering with legitimate business; and there is not any other agency to-day to interfere with those gamblers except the Government.

A great deal has been said in these hearings about the hedge. The term "hedge" has been used by nearly every one that ever heard of the bill and is understood by very few that have ever heard of it. I attended a meeting the other night here in Washington where Congressmen were invited to meet with the national representatives of the Farmers' Union, and I am frank to say to you that I heard a great many Congressmen in that meeting proclaim their willingness to absolutely abolish the hedge. Upon asking any of them a question involving the hedge, none of them were in favor of abolishing it. The only one absolutely in favor of entirely abolishing the legitimate hedge, I think, is a man who does not know what a legitimate hedge is.

I do not think any good-thinking man in the United States is in favor of preventing the farmer from selling his wheat for future delivery. I do not think any good-thinking man is in favor of preventing his home dealer who buys that wheat from reselling it for future delivery.

Mr. KINCHELOE. Mr. Tincher, would it bother you to ask you a question right there?

Mr. TINCHER. Not at all.

Mr. KINCHELOE. Right in line with your statement about Congressmen not knowing about the hedge, I happen to come from a State that is between the two extremes of cotton and grain. Although we raise grain, I am frank to say that while I know all about tobacco I do not specially know about this manipulation of the grain market. I would like to know from somebody, and I do not know whether you feel like doing it or delegating it to somebody else—the ex-

planation of this plan—and then I would like to have this question of hedging explained and the effect that this gambling has upon the producer of grain, although I do not want to interrupt your discourse.

Mr. TINCHER. That is all right. Of course we have had this matter up so much——

Mr. KINCHELOE. Being a new member of this committee I did not hear it before.

Mr. TINCHER. Let us just get down to fundamentals and say that I am buying grain out at Medicine Lodge, Kans., my little home town, and you are farming, and you come in and say that you want to sell me 2,000 bushels of wheat, because you think you are going to produce that much. The day I buy that wheat I have cards from the Chicago Exchange and from the Kansas City Exchange and probably from Minneapolis and Duluth giving me the prices on a certain grade of wheat and advising me that they will pay so much.

Mr. WILLIAMS. That is cash wheat.

Mr. TINCHER. That is cash wheat for future delivery.

Mr. KINCHELOE. Yes.

Mr. TINCHER. And I can sell that wheat. I can look at those cards before I buy your wheat and know what I can sell it for, and I can close that deal by telegraph with responsible firms for delivery at a future time which will enable you to deliver the wheat to me and enable me to deliver it to them. I do not think that transaction ought to be interfered with at all. In addition to those cards from these millers direct, I will have cards from probably a dozen, or perhaps more, brokers—men that never trade in futures, men that don't gamble on the board of trade but have an office at the exchange and actually buy and resell cash wheat—and I do not think we ought to destroy those men.

Mr. ASWELL. May I ask you a question right there? Suppose something should happen and he could not deliver the 2,000 bushels of wheat to you, and you had already sold it, would you be taxed?

Mr. TINCHER. No; my bill would not tax you.

Mr. KINCHELOE. Going a little further, who fixes that price? You say you could telegraph to Chicago that day and get the price.

Mr. TINCHER. No; the way the grain market is now and the way the exchanges are run, the witnesses who testified before us here and the good, substantial grain men who testified here, all told about how they sold their grain, and they all sold just like I am telling you. Now, there is another way——

Mr. ASWELL (interposing). Suppose he could not deliver that wheat, what would happen?

Mr. TINCHER. If the transaction was in good faith, there would not anything happen, according to my bill. I will explain that later. If it was not in good faith the Secretary of Agriculture would refuse to designate the board of trade of which the dealer was a member as a trading place and they would go out of business. For that reason, if this bill should become a law, there would not be any gambling in wheat futures the day after it took effect. Now, there are two ways to handle that wheat. There is another way by which the man who bought your wheat would wire into Chicago and sell so many bushels of wheat on the board of trade for future delivery. He would prob-

ably sell it to a man who never intended to handle it. He would sell it to what we call the gambler in the trade, and as far as I am concerned, I do not think he ever had any place in the business and he could not operate under this bill I have drawn here, and it would confine the trading to the legitimate channels of trade.

Mr. JONES. You would limit the definition of hedging then to simply selling for future delivery?

Mr. TINCHER. I do not mention the hedge in the bill here at all.

Mr. JONES. I notice you do not, but by enumerating the others you exclude hedging.

Mr. TINCHER. I would say that we had before us the grain dealers in the local markets and they told us of the two routes and I would say that there was only one route and the average, good, legitimate grain dealer will tell you that if he ever takes the other route and gets started on it, and that is the gambling route, he will eventually go broke anyway, because it is pure, unadulterated gambling. Here is the proposition. If a man down at Amarillo buys a thousand bushels of wheat from me to-day and wires in to Chicago and sells a future against it and makes money by doing it, he is very liable to wire in the next day and sell 5,000 bushels of wheat when he has not bought any wheat from anyone. He becomes fascinated with that gambling process, by which only a few men become millionaires and the others become paupers; that he eventually goes broke, just like you know of men in your home towns that that has happened to.

Mr. THOMPSON. Why is the gambling phase necessary to carry on a necessary hedge or to carry on the insurance phase of it?

Mr. TINCHER. It is not necessary, absolutely, and I have in mind the fact that perhaps the best looking and most intelligent grain man—and I do not say this to flatter—who appeared before his committee was a man from Mr. Purnell's district, and I think a personal friend and supporter of Mr. Purnell. He described this matter just exactly as I am now, and wound up by saying that while he did not want to be deprived of the hedge, yet he either sold his wheat to an exporting broker in New York or a miller in Minneapolis, and had never sold wheat for future delivery—that is, as a gambling proposition—and had never bought a bushel of wheat, I believe he said, Mr. Purnell, but what he had hedged it; that he had always sold cash wheat for future delivery against every purchase.

Mr. ASWELL. Who was that?

Mr. TINCHER. I do not recall his name, but he was from Mr. Purnell's home town.

Mr. PURNELL. That was Mr. Reynolds.

Mr. JONES. Mr. Tincher, let me ask you a question: The exchanges were closed at one time, just after the grain corporation released its control, and then they opened up again. Did the fluctuations begin as soon as they opened up?

Mr. TINCHER. Absolutely. I think within three days there was a 19-cent fluctuation in the price of grain, and the testimony before the committee at the other hearing demonstrated clearly that it was accounted for purely by the opening of the gambling in grain futures. Let me suggest this, which the old members of the committee know about from previous hearings—every man who testified admitted that this condition existed—that if a man came here from Liverpool to

buy wheat for England it was possible for him to go on the board of trade at Chicago and manipulate the market so as to take the wheat out of the hands of the farmers at his price, and everyone of them said—I want to do justice to these grain exchanges—the defense of everyone of them was that they would not do it. That is in the hearings here, and an examination of the hearings will show that.

Mr. DICKINSON. Have you seen the recent regulations proposed by President Griffin, of the Chicago Board of Trade, in order to do away with that?

Mr. TINCHER. Yes; and I want to suggest that I do not think there ever will be a transaction under this bill, if it becomes a law; I doubt if there is ever a dollar collected as an excess tax on the sale of a bushel of wheat, if this bill becomes a law; but it will absolutely, the day it becomes a law, stop the pure, unadulterated gambling in wheat futures.

Mr. KINCHELOE. It would be a prohibitive tax?

Mr. TINCHER. Yes.

Mr. WILLIAMS. Who will get the benefit of that.

Mr. TINCHER. That will benefit the producer of wheat in that he will get the price, less a legitimate profit, that the man who is going to really handle his wheat is expecting to get for it, and that will benefit the consumer of this country because he and the producer will be relieved from making multimillionaires out of thousands of men, out of their product, between them.

Mr. CLARKE. Does not that interfere with your previous statement that automatically most of these fellows who are gambling in wheat go broke and that there are only a few of them who get rich?

Mr. TINCHER. When I said a few I did not mean half a dozen. It has been said that the farmer gambles, that he sells on an option. The farmer that gambles and sells an option invariably loses; but the man the bill is striking at is the man whose business it is and who does not do anything else but gamble in food products. They have their ups and downs. To-day, maybe one of them is worth $500,000 and maybe to-morrow he is worth $2,000,000, but all the time he is riding around in a high-powered car, living at fashionable clubs, and spending more money in a week than a farmer can spend in a year, and living on the fat of the land.

Mr. JONES. And living on the wheat business.

Mr. TINCHER. And living on the wheat business when he would not any more know——

Mr. THOMPSON (interposing). In other words, he is not a producer.

Mr. TINCHER. He is not a producer.

Mr. THOMPSON. And you want to protect the producer and see that he gets the benefit of what he produces.

Mr. TINCHER. Yes.

Mr. THOMPSON. And also the consumer.

Mr. TINCHER. It is not unfair to the consumer. I have always held, as a member of this committee, that any legitimate legislation in this committee for the protection of the producer of the country would not work a hardship on the consumer. There was a time, right after the war, when some of the so-called statesmen of the

congested centers, under the advertisement that the farmer was getting rich, wanted to place embargoes on foodstuffs and do things like that which would destroy production, but I submit the proposition that the real statesman of the congested center is awake to-day to the fact that legislation that protects and helps the legitimate producer is also a protection to the legitimate consumer.

I have prepared here on two or three typewritten pages a statement concerning this bill which I desire to read to the committee and put in the record, and to show you that I have some respect and consideration for the committee, I will say that the first time I prepared this statement I had it on 30 pages.

Mr. JONES. Just before you read that statement, I would like to ask a question. You stated something about permitting them to sell three times as much wheat, or to make three sales, why do you arbitrarily fix that at three?

Mr. TINCHER. Because I did not know. I do not do that in this bill. I knew it was wrong, in a general way, when I prepared the other bill, to prohibit the legitimate producer of wheat and the legitimate dealer in wheat from buying and selling for future delivery, and I was making an effort to get at it and I mentioned three times, and then after the hearings I concluded it was not necessary at all to place any limitation upon a man in the sale and delivery of wheat, and I do not put any limitation in this bill except that every sale and every purchase is reported to the Secretary of Agriculture, who has the power to cancel the designation of that board as a trading place, and if you will stop to let that soak in a minute you will realize that that is sufficient to prevent any gambling in grain futures.

The CHAIRMAN. Mr. Tincher, is there any limitation placed upon those regularly engaged in the business of growing, dealing in, or manufacturing grain?

Mr. TINCHER. No.

The CHAIRMAN. And one of them may sell 1,000 or 1,000,000 bushels?

Mr. TINCHER. There is this limitation: They must report their transactions. The viciousness of gambling in trade futures has been the secrecy of it.

This committee, no matter how many witnesses we brought here, could not even obtain anything like reliable information as to how many dozen times the wheat crop was sold and bought in Chicago before it was thrashed. I make that statement right in the face of the fact that we had the president and the officers of the exchanges here and tried to get that information.

Mr. CLARKE. How comprehensive was President Gates's statement that he furnished during your investigation and hearings here?

Mr. TINCHER. I think President Gates is a fair man for the business he is engaged in.

Mr. CLARKE. But how comprehensive were his statements—that is what I am trying to get at.

Mr. TINCHER. He estimated, and I think he was willing to give us some estimates, but he assured us that there was nothing in his estimates that we could rely upon at all, and they were not very good, because we got some real facts that upset some of them. However,

he was like Barnes; and I respect Mr. Barnes as a high-class business man, but I have understood that Barnes has made several million dollars out of the grain business, and I know he never raised any wheat, and I understand he never milled any wheat, and he has made more money than a man ought to make just by eating flour.

Mr. CLARKE. Is it not true that every one of these experts whose opinion you are going to take never produced a bushel of wheat—such men as Hoover, Thorne, Gates, and Barnes?

Mr. TINCHER. I think along lines that we know they are familiar with their testimony was worth consideration.

Mr. CLARKE. But you are applying as your test the production of wheat.

Mr. TINCHER. If we had to get witnesses to come before this committee to furnish us information upon which to base legislation who were men who actually produced the wheat, we would never get it. They elect us to come here and halfway represent them in that regard.

MEMORANDUM ON PROPOSED "FUTURE" BILL.

The objections to the original Capper-Tincher bill as I see it were as follows:

1. Probably the most beneficial influence under the present system to the farmer and the consumer is that when the great movement of grain is on in August speculative buyers keep the price from going too low; and when grain is scarce in April the same influence keeps it from going too high. The three-time provision would make a shortage of buyers in August and a shortage of sellers in the following April. In other words, it is not elastic.

2. It is capable of abuses as it is now drawn by the use of the "ring" settlement, as Mr. Thorne pointed out.

That is the reason I abandoned the three-time proposition.

3. There is a possibility of its tending toward a monopoly.

Mr. Thorne and some other men called our attention to the fact that if we permitted that three-time transaction it might have a tendency to enable certain men to corner the grain market. Of course, being from a producing section, I never feared a corner, because that invariably has raised the price, but, wanting to be fair to the consumer, I was willing to abandon that proposition.

I have made a little synopsis of what I think the legislation ought to do:

1. Elimination of the gambler: There has been a number of definitions of the difference between a gambler and a speculator, but none as good as this one: "The gambler is the man who invests in futures without having any judgment or knowledge which he is backing. The speculator is the man who is engaged in the business and deliberately invests in grain because he believes the price will rise."

I know there are some high-sounding definitions or distinctions between those two propositions that have been presented before the committee, but I think when you sum them all up that is the real distinction.

Ninety-five per cent of the pure gambling is done in the private-wire houses which dot every State and which make gambling easy.

Eliminate them and 95 per cent or more of the pure gambling is done away with, for it closes the wire houses.

2. The present bill limits the buying of futures, and absolutely to those who are regularly engaged in the grain or milling business. They may speculate only upon such boards of trade as are designated by the secretary of the board of agriculture.

3. The other evil is that of manipulation. I have given more consideration to the 200,000-bushel limit of Mr. Hoover than any other single thing. Mr. Hoover in his testimony was very doubtful and hazy as to its effectiveness. He suggested himself that it was inflexible and that some other means should be adopted. I have left it out of the present bill for the reason that I think it can better be arrived at by two other means:

(*a*) Requiring a public record to be made of all future transactions which in itself prevent manipulation. If a man is undertaking to "bear" the market and the whole world knows he is doing it, he is the only loser. Secrecy is absolutely necessary to such efforts, and that is the reason why the Chicago Board of Trade keeps no records.

I think that statement is warranted. Of course, I realize it would be some trouble to them to keep these records of the transactions, but I do not think anyone will seriously contend that for this reason they will never keep them so long as the present system is in vogue. The English wheat buyer would not want the American farmer to know that his first step upon coming here to buy wheat was to go on the Chicago Board of Trade and sell so many bushels of wheat for the purpose of depressing the market, and if he had to make a public record of that, he would not do it.

(*b*) The present bill requires that the privilege of dealing in futures shall be withdrawn from any board of trade unless it enforces itself rules that will prevent manipulation.

Let me say right there that every man representing a board of trade that came before this committee, and I challenge one of them to deny this, pretended that their board of trade was absolutely against manipulations; so they can not take any exception to a law that will prevent manipulation.

Manipulation could be carried on on the Kansas City Board of Trade under a hard and fast rule that would not affect Chicago at all. In other words, each board of trade presents a different situation because of the volume of its business, and I am satisfied that the real way to reach it is to make every board put a rule in effect and to keep it that meets the needs of that particular board. If the Secretary of Agriculture has the power to stop them at any time from dealing in futures at all, you can rely upon it that it will enforce it. They would know that one manipulation of the market would mean the closing up of their future business.

Personally, I am satisfied at least now that the bill which we present is the answer to the manipulation question.

4. The bill also provides that every board of trade is in itself responsible that no false information as to crop conditions or markets is sent out by any of those who are members of the board.

It is not necessary to call the attention of the older members of the committee to the practice that exists, with reference to the grain proposition, of permitting the board of trade to send out a false report

as to crop conditions so that the farmer's product is dealt in for two or three days on the basis of that report, and then the report is corrected, to the advantage of the speculator and to the detriment of the producer, and in time to be sure that no consumer gets any benefit from the false report.

This is under the penalty of having the future-trading privileges withdrawn from it. This means that each board of trade will appoint a censor, who will put an official stamp upon every crop report that is sent out. It also requires the boards of trade to disseminate truthful market information.

I do not think any member of any grain exchange will seriously contest the proposition that that should be the law.

5. It provides for the keeping of public records which I have previously discussed.

I have not mentioned the word "cotton" in this bill, I will say to the gentlemen from the cotton-producing sections of the country, as I did in the other bill, because I came to the conclusion that it was presumptuous on my part to attempt to offer a bill on that subject. I thought at the time I introduced the other bill I understood what the cotton producer wanted, and some of the members of this committee said to put it in; but I want some man that represents the cotton-producing section to take the responsibility of deciding to what extent they want a law of this kind to apply to trading in cotton, and not myself, and I will be glad to support any bill or amendment that the cotton growers are interested in along that line.

I think that is all I care to state, Mr. Chairman.

Mr. KINCHELOE. Is it your contention, Mr. Tincher, that under the present régime of gambling or speculating, or whatever you may call it, that the price of wheat is fixed by them and not by the law of supply and demand?

Mr. TINCHER. Oh, yes; I think so. Of course, they will all admit that it is fixed at times by them and to a degree by them, but where we differ is as to what times. I think all the time and I think to any degree they see fit, but the exchanges will not admit that. They would deny that proposition.

Mr. ASWELL. Mr. Tincher, I have read most of these hearings and I have listened to you with keen interest, but I have not yet found any specific proof guaranteeing that your bill will give the remedy. There are a number of opinions, but I do not see any positive proof that this will be a helpful thing to the producer.

Mr. TINCHER. I suppose it would be rather impossible for any man to introduce a bill——

Mr. ASWELL (interposing). I am honest about it and I want to find out. There are opinions expressed very broadly and positively in all of these hearings, but I have not seen any positive proof.

Mr. TINCHER. I do not see how a man could offer positive proof on a subject of that kind.

Mr. CLAGUE. Mr. Tincher, who is going to take the hedge? I think most of your bill is in splendid shape. Everyone will concede that dealings in ups and downs and puts and calls should be done away with, because that is purely speculation. The putting out of false reports should be done away with, and we have thousands of them, to the injury of the actual grain growers; but under your bill who is going to take the hedge?

Mr. TINCHER. The man who wants to buy wheat or the man who wants to buy corn. You will find in the hearings a lot about that.

Mr. CLAGUE. Who protects him? I am in the milling business, we will say. In my district we have mills of upward of 25,000 to possibly 30,000 barrels that use at least 125,000 bushels of wheat a day. When our mills buy that wheat, who protects them under your bill?

Mr. TINCHER. I do not pretend that my bill furnishes insurance to every man engaged in the business except the farmer, and I do not think it is good argument against a measure or that it is good argument for a system to say that we now have a system of gambling by which every man in a business connected with grain, except the fellow who produces it, is guaranteed at the expense of the man who produces it against any loss. No other business is carried on in that way, and if I buy wheat for my mill to manufacture flour, there is just as much reason why I should take some chance on selling that flour for a profit as there is that the man who plants the wheat should take a chance on selling his wheat.

Mr. JONES. Even in the gambling transaction there is somebody who is not protected.

Mr. TINCHER. There is the meat in the coconut. Under the present system they do not take any chances. They so manipulate it that every man has what they call insurance, except the man who grows the wheat and performs the actual toil. If that is insurance, then it is too good an insurance; it is too high priced insurance for the farmer to maintain for the man who handles his product. However, we have an example of the proposition you mention between the time that the Grain Corporation functioned and the time that the gamblers began, there were several months, and I will leave it to any grain man in the United States if that was not one of the most satisfactory periods they ever did business in. If you had grain to sell you would sell it to a man who wanted to buy grain and you could find a legitimate market for it. Just stop and think a moment. They talk about the law of supply and demand governing the price of grain, and the board of trade will tell you that that law actually still governs the price of grain. If it does govern let us just give it a free hand and let it govern.

I realize that in years when there is an oversupply of grain the price will probably be cheap, but we will not have to take care of so many people out of it and enrich so many people if we let the law of supply and demand govern. If a miller wants to buy wheat, he can buy it from a broker or from a man who bought it from the producer. I do not think there is anything wrong with the idea if it has to be handled by two or three dealers in being moved from the producer to the consumer, and that would be an ideal condition compared with its being sold 50 or 60 times between the time it is thrashed and the time it is consumed.

Mr. KINCHELOE. Mr. Tincher, after these grain exchanges opened up, after the termination of Government control, how frequently did the price of wheat fluctuate and in what period of time?

Mr. TINCHER. Oh, every day.

Mr. KINCHELOE. If the law of supply and demand regulates it, why should it fluctuate at all. For instance, when the spring wheat goes on the market there are so many bushels. Now, there is not going to be any more bushels of wheat until the fall wheat goes on the market.

Mr. TINCHER. I think the gentleman is entirely right. I think the more artificial gamblers you eliminate between the producer and the consumer the more stable your market will be. I do not think there can be any question about that, and I do not think that this way of handling it is radical, and I do not think it is subject to the criticism that is being made. I anticipate that the propaganda has started; in fact, I know it has. Word has gone out from Washington or from somewhere else to the grain dealers and to people in any way interested to protest against us hurrying on this proposition, and then several telegrams have come in which I am satisfied are in response to telegrams received by the parties asking them to wire for a delay. Then the morning paper comes out and wants to know if this will not be in conflict with the idea of the President that we must not have too much business in Government.

Mr. PURNELL. You mean too much Government in business.

Mr. TINCHER. Yes; too much Government in business; and I think that is inspired, probably, by some one who is afraid we will have some law that will make for better government.

Mr. PURNELL. Mr. Tincher, let me ask you a question. I am particularly interested in the small producer. In my section of the country we have a number of small elevators, perhaps 30 or 40 in my county, to which the small producer hauls his grain when harvested. What I want to do, if possible, is to protect particularly the small producer who must at a certain time in the fall or in the crop season find a quick and ready cash sale for his product. Suppose one of my 40-acre or 80-acre farmers has to have some money and has to sell his corn or his oats or his wheat and goes to the little elevator man and finds his elevator is full and that he can not take it, but that the elevator man can buy his product and then sell a hedge against it. The thing I want to find out is what provision does this bill make to protect that transaction. Perhaps I could get the information by asking you this question: You are going to require the man who sells the hedge to protect the buy from the farmer, to actually sell it to a man or a corporation or a firm, anticipating the actual delivery of that grain.

Mr. TINCHER. Yes, sir; and not to gamble. He can sell the grain but he must be in the business and he must actually contemplate the delivery of the grain. I have carefully examined the testimony of the elevator men who were here from your district and testified. They protect your men out there now by buying the grain and they did not want their right to do that interfered with. Therefore, I found out exactly how they protected them and this bill does not interfere with them at all.

Mr. PURNELL. I did not think it did, but I wanted to get that on the record.

Mr. TINCHER. They are permitted to resell that grain just exactly as they resell it to-day.

Mr. THOMPSON. Are those cooperative elevators or independent elevators? Are there any cooperative marketing associations in your district?

Mr. TINCHER. There are some, and there will be more, I think, in almost every district.

Mr. KINCHELOE. The purpose of your bill, Mr. Tincher, is to put the gambler entirely out of business?

Mr. TINCHER. I think it would have that effect.

Mr. KINCHELOE. Then, it would be the Government putting an illegitimate business out of business?

Mr. TINCHER. I think the Government has found it necessary for the benefit of society to put the small gamblers out of business and the Government has found it necessary for the benefit of society, not only in most of the States but as a national proposition, to put the bucket shop out of business, and with all due respect to the Chicago Board of Trade and the manipulation carried on there, I can not see any possible excuse for saying that while we are against the bucket-shop system we have to have one big bucket shop. The principle of this legislation has been conceded by everyone for years, that is, that gambling is a moral wrong in the United States, pure unadulterated gambling is wrong, and why it should be tolerated with reference to food products and not tolerated in other particulars I can not conceive.

Mr. KINCHELOE. Does anybody suggest that this would hit the farmer?

Mr. TINCHER. Yes, sir; some of the witnesses say that the farmer will not have a stable market for his crop if we stop the gambling, and my good friend would like to have a guaranty that it would. I wish it were possible to have an absolute guaranty that it would do just what we want. Naturally, it is a step in the right direction. There never was a time in this country, I think, when there were such fluctuations in the products of the farmer, such difference between what the farmer receives for his labor and product and what the consumer pays for it, as exists right to-day.

Mr. TEN EYCK. Mr. Tincher, I want to ask you in a general way about the bill. I have read it over. The intention of the bill, as I have taken it, is to do away with puts and calls?

Mr. TINCHER. Yes, sir.

Mr. TEN EYCK. There is no limit to the amount that a man who is a real dealer or a real manufacturer can purchase or sell for the future; there is no limit to that?

Mr. TINCHER. No, sir.

Mr. TEN EYCK. The only thing you do in that relation is to make them register the amount that they sell so that you will know by that who is actually purchasing or selling any large amounts for the future?

Mr. TINCHER. Yes, sir; it will have no other effect.

Mr. TEN EYCK. In what way do you prevent these men from using different individuals to do it for them under different names; they do not go out and buy it all in their own names?

Mr. TINCHER. I understand.

Mr. TEN EYCK. How is that information ascertained?

Mr. TINCHER. By limiting it in the bill. In the first place, we put on the tax and then exempt certain classes where the seller is at the time of the making of such contracts the owner of the actual physical property covered thereby—everybody agrees that he should be exempt—persons, who at the time of the making of the contract, regularly engaged in the business of growing, dealing in, or manufacturing grain or grain products may enter into contracts for future delivery; then we have them put it in writing to be made a public

record; and then we prevent manipulation by giving to the Secretary of Agriculture the power to take away from them the designation for a contract market place if they permit manipulation. I may be wrong, but I believe that that will prevent any such combination as you contemplate.

Now, in the original bill I had one serious fault that was legitimate; that was, that it would permit just what you are talking about. It is a hard proposition to reach, but my theory is that you can reach it in this way by giving the Secretary of Agriculture the power to cancel.

Mr. TEN EYCK. Who is the dealer, dealing in grain; how do you consider him?

Mr. TINCHER. I can give you an illustration. I know men, for instance, on the Board of Trade of Wichita who have offices there and who are men of means and who actually buy grain and sell it. They are in that business. The Wichita Board of Trade, if designated as a trading place, could very properly recognize those men and deal with them. They would not sanction any gambling on the grain market—what we call gambling—they would consider it a worse reflection on a man's business ability to gamble in grain futures than I would. There is another class in the same building who go down in the pit every morning and gamble.

Mr. TEN EYCK. Those are the put and call men?

Mr. TINCHER. Yes, sir.

Mr. JONES. You would not call them dealers?

Mr. TINCHER. No, sir. They are rich to-day and poor to-morrow. They never raise any wheat and they never handle a carload of wheat.

Mr. TEN EYCK. What about the men who deal with the farmers, who sell grain wholesale; they have a great many carloads of grain on the road continually and they have taken their legitimate profit out of each carload, but at times they may feel, we will say, that October and November oats are going to increase in value—could they, under this bill, buy October and November oats?

Mr. TINCHER. Yes, sir.

Mr. TEN EYCK. To any quantity?

Mr. TINCHER. Yes, sir. The only thing they will not buy a quantity which enables them to manipulate the market, which they should not do, and they will not do that. Why? Because they have to make a public record of the purchases.

Mr. TEN EYCK. That is what I mean.

Mr. VOIGT. Under section 4 of your bill, subdivision a, you provide that where the seller is at the time of the making of such contract the owner of the actual physical property there shall be no tax levied. Suppose a man in your State is a large grain raiser and he wants to sell his crop before it matures. Suppose in the month of May the price of wheat should be high for future delivery and he does not harvest his crop for a month or two thereafter and he wants to make a future sale. Is he considered the owner of the wheat under this designation?

Mr. TINCHER. I thought of that very proposition. I might say that if he is not covered by that he is covered by b.

Mr. VOIGT. Under b I have read that any number of hedges can be made, as I understand the reading?

Mr. TINCHER. Yes, sir.

Mr. VOIGT. There is no limit?

Mr. TINCHER. There is no limit if they make a public record.

Mr. VOIGT. What your bill really does, it allows hedging to any extent?

Mr. TINCHER. Yes, sir.

Mr. VOIGT. If the hedging should assume too large proportions—that is, if the Secretary of Agriculture thinks that it is getting into the gambling field, then he has the right of control by taking away the designation of a contract market?

Mr. TINCHER. I think there are two things that will prevent that: First, the publicity or the fact that there is a public record made of the purchases will prevent manipulation; and, second, if that does not prevent, then the power in the hands of the Secretary of Agriculture to take away that designation will absolutely preclude any board of trade taking any chance of permitting manipulation on their board of trade on the market.

Mr. VOIGT. You say, and I think it is true, that there are thousands and thousands of people who go broke in speculating in grain and that there are a few that make millions and have them for some time at least. How about the little fellows who speculate in 5,000, 10,000, or 25,000 bushels; do you consider them manipulators?

Mr. TINCHER. I do not think it is the little fellow who deals in 5,000 or 10,000 or 25,000 bushels; I think it is the fellow who actually buys grain and resells it.

Mr. VOIGT. He buys one of these contracts, and when the market goes up he cancels the contract. In that case there is no intention to deliver the commodity.

Mr. TINCHER. I will say, frankly, that there may be men who actually maintain an office and trade who will be unable to go ahead in their trading operations under this bill that I would have liked to have covered, but I would rather have the bill, under the advice that we had from these men, not too radical or to have it with some slight abuse under the proposed system than to upset the grain markets of the United States by going too far.

Mr. VOIGT. What I want to get at, Is it the intention of your bill to do away with the small gambler; that is, the man who speculates in anything up to 50,000 or 100,000 bushels?

Mr. TINCHER. I think it will do away with all gambling, big and small. I do not think that anybody will buy grain for future delivery except legitimate dealers in grain.

Mr. VOIGT. Section 4 of your bill does not stop any man from gambling in grain. Section 4 says that a contract for future delivery may be made provided it is made through a member of a board of trade.

Mr. TINCHER. And a record made?

Mr. VOIGT. Yes; a record has to be made, but that does not shut off the gambling at all, with this exception, that if the Secretary of Agriculture thinks the gambling has gone too far he may close up that particular board of trade.

Mr. TINCHER. I think—I may be wrong—that this bill can be amended so as to cover that. It would be remarkable if it were perfect. I think that it will prevent manipulation absolutely. I may be wrong.

Mr. VOIGT. I think you are right about this, that the publicity feature provided for in the bill is going to stop manipulation, at least to a large extent. I am trying to find out what you are trying to accomplish.

Mr. TINCHER. You heard some of the friends of this legislation say that they were fearful of this legislation and that they advocated the passage of the bill to take effect two years in the future?

Mr. VOIGT. Yes; I remember that.

Mr. TINCHER. I did not like that at all. Those were pretty big men. My notion was to pass a bill and not get too radical so that it might upset conditions, and try that out. The producing sections of the country are in a condition where they can afford to take a dose of medicine without the insurance like the gentleman mentioned that it will absolutely cure. The case has been diagnosed and it is not a sure remedy for it.

Mr. VOIGT. I understand that it is the little fellow who does the gambling, that Mr. Tincher has been talking about, and you do not cut him out in this bill; you do not stop gambling absolutely.

Mr. TINCHER. That depends. I would state candidly—I do not want to argue with my colleague—you are right; I do not think that this bill will absolutely stop gambling; I do not think it is possible to absolutely stop it, but I would be glad to have any suggestions, because I am in favor of stopping it as far as we can.

Mr. VOIGT. Suppose that this gambling goes on under your bill to such an extent as to amount to manipulation, or the Secretary of Agriculture thinks it is manipulation, suppose that should happen in Chicago, where the bulk of the grain is handled, and the Secretary of Agriculture should withdraw the permit of the contract designation, under your bill, on the Chicago Board of Trade, what effect would it have on the grain markets of the country?

Mr. TINCHER. It would have a beneficial effect upon the legitimate owners of the grain. If the Chicago exchange absolutely could not operate without manipulating the market, then the trade is better off without the board of trade, and it should be closed. I do not think that that condition would ever arise. They say now that they are opposed to manipulation. I do not think that we could at all contemplate them doing that. I say take away their power and their designation as a trading market. This country can get along without anyone who declares himself against the laws of the country. If it is for manipulation, I think that the country would be better off and that everyone in the country would be better off without it.

Mr. JONES. Could you give a definite definition of what you call puts and calls? You would not want to undertake that?

Mr. TINCHER. I would not.

Mr. TEN EYCK. In line 3 on page 3 it says "Through a member of a board of trade." Should not that be "Through a member of a board or boards of trade?"

Mr. TINCHER. If he was a member of one board——

Mr. TEN EYCK (interposing). The question is whether or not in figuring up the amount of grain that he has bought or sold would that restrict him to the one board of trade? Suppose he did it through several. The question is whether we should not say board of trade or boards of trade?

Mr. TINCHER. I do not know but what that is a good suggestion. He ought to be charged up with all the transactions.

Mr. Chairman and gentlemen of the committee, when we get on the floor, if we should get on the floor with a bill of this kind, there may be certain questions as to what hearings we have had before the committee, and I want to offer for the record parts of the old hearings before the committee. The new members of the committee have had access to the old hearings, and from what I can understand they have been reading them.

Mr. JACOWAY. Will you permit an interruption?

Mr. TINCHER. Certainly.

Mr. JACOWAY. Can you put into your remarks, to be incorporated in the record, the names of those who have testified for this proposition and those who have testified against it—that is, the most prominent parties who have testified for and against the proposition—so that the new members of the committee may read that without going over all the hearings?

Mr. TINCHER. That was my idea.

Mr. JACOWAY. In other words, the names of the parties who testified before the committee to bear out your contention and those who occupied the opposite position.

Mr. TINCHER. Clifford Thorne, Herbert Hoover, Julius H. Barnes—there are some gentlemen whose statements I am not going to put into the record at this time, but may later, because they are here.

Mr. JACOWAY. They are for the bill?

Mr. TINCHER. They are for the principle of this bill.

Mr. JACOWAY. Could you give the pages of the record without any great inconvenience?

Mr. TINCHER. Mr. C. S. Barrett.

Mr. KINCHELOE. Mr. Barrett?

Mr. TINCHER. Yes, sir. Mr. Gray Silver. A number of witnesses that testified before will no doubt be before the committee at this time. I suppose some one opposing the bill will give their information to this committee. I do not want to incumber the record too much. I think in those statements will be found practically the whole contention. For instance, in the hearings here we have one witness after another, and they repeat.

Mr. KINCHELOE. Are you going to give us the statements of those who are opposed to the principle?

Mr. TINCHER. I do not think anyone will publicly declare that they are against the principle of doing away with gambling in food products. Those who are really against the principle contented themselves with criticism of the bill that was before the committee, and I suppose at this time they will have some criticism to make of this bill. However, I will ask to insert in the record the statement of Mr. L. F. Gates, because I do not think that he is here.

Mr. KINCHELOE. Mr. Gates?

Mr. TINCHER. Yes, sir. I do not think that Mr. Gates is here. I do not know whether he will be here. I should hesitate to name any of these gentlemen. Some of them are here and will want to make their statements for the record in their own way. Mr. Atkeson's statement was friendly to this form of legislation, but I know that he

is in town all the time and we will want to give him an opportunity to appear before the committee.

The CHAIRMAN. What is the form of your request, Mr. Tincher?

Mr. TINCHER. I ask unanimous consent, Mr. Chairman, to insert as a part of these hearings the testimony taken at the former hearings, as indicated.

The CHAIRMAN. And others whom you may indicate later?

Mr. TINCHER. Yes, sir.

Mr. VOIGT. Does that mean that the testimony will be reprinted?

Mr. TINCHER. I thought it would be easier to reprint it, inasmuch as they are still holding the type on it, than to reprint the whole document.

Mr. VOIGT. It is set up in type?

Mr. TINCHER. Yes, sir.

The CHAIRMAN. We have only a few copies.

Mr. TINCHER. I ask that it be made a part of the hearings.

It was so ordered.

The CHAIRMAN. What arrangement can we make as to the division of time? Is there anyone present who desires to be heard to-day or to-morrow?

Mr. MARSH. I would like to be heard to-morrow on the subject of the principles of the bill.

The CHAIRMAN. Mr. Tincher, will you control the time on your side?

Mr. TINCHER. If it is satisfactory to the committee; yes.

The CHAIRMAN. Then, without objection, Mr. Tincher will arrange for the apportionment of the time for proponents of the legislation. Who is here who would care to control the time in opposition to the bill; is anyone here?

Mr. WELLS. In accordance with the program that was submitted by the secretary of the committee, I notified my friends in the West that they would have an opportunity to be heard beginning on Wednesday morning. I shall be glad to report to you from time to time the situation.

The CHAIRMAN. Will you take the matter in charge and apportion the time for opponents of the legislation?

Mr. WELLS. I will if that is your wish.

The CHAIRMAN. Without objection, it will be so ordered.

Mr. TINCHER. We intend to occupy a little time to-morrow on this bill. Let them have Wednesday and Thursday, and then, if necessary, arrange to have some one here to answer later. We will not take a lot of time. Most of the new members tell me that they are reading the old hearings.

The CHAIRMAN. Senator Dial and Mr. Dickinson have requested to be heard; without objection, they will be heard.

Mr. TINCHER. Certainly.

The CHAIRMAN. Is there any other witness?

Mr. TINCHER. There is not any particular witness to be heard this morning, Mr. Chairman.

The CHAIRMAN. Is Mr. Dickinson here? [After a pause.] Is there anyone else who desires to be heard this morning in behalf of the bill?

Mr. FUNK. May I ask a question?

The CHAIRMAN. Certainly.

Mr. FUNK. Your bill provides that no one shall deal unless he be actually the owner of the grain. What provision is there in the bill to prevent many deals being made on the same grain crop—a man may own 10,000 bushels of grain and may make many deals. Is there any system of requiring identification of a particular stock of grain?

Mr. TINCHER. The bill provides that the transaction must be a matter of record. Of course, that would expose him.

Mr. FUNK. Then, he would have to declare where his grain is located. It might be in the country. He might deal on half a dozen boards of trade and he might deal on that particular grain of 10,000 bushels each day in the year?

Mr. TINCHER. There is a provision in the bill that, I think, takes care of the proposition. On page 3, in line 5, it is provided:

And if such contract is evidenced by a memorandum in writing which shows the date, the parties to such contract and their addresses, the property covered and its price, and the terms of delivery, and provided that each such person shall keep a permanent record of such contract for future delivery.

Mr. VOIGT. If the man is the actual owner of the grain he does not have to make any written contract?

Mr. TINCHER. No, sir.

Mr. VOIGT. That is provided for in line 21 of page 2.

Mr. TINCHER. I think you will agree with me that that is right.

Mr. VOIGT. That is the kind of a case this gentleman was speaking of.

Mr. FUNK. I had in mind a man who owns 10,000 bushels of wheat or corn.

Mr. VOIGT. He comes under line 21, on page 2:

Where the seller is at the time of the making of such contracts the owner of the actual physical property covered thereby.

Mr. JONES. The physical property covered by the transaction.

Mr. FUNK. But he could make a dozen deals unless you have some specific provision as the actual owner of the 10,000 bushels of grain. There is nothing in this bill which would prevent him from making a dozen deals. He would submit the 10,000 bushels in each instance and he would be the actual owner of the 10,000 bushels of grain.

Mr. TINCHER. In the first place, he would have to make that transaction on a board of trade which was so designated for it to be right and that would be a public record. I can not conceive of anyone who would take so many chances of losing out on the board of trade. However, I admit there is the possibility of the violation of this law in that respect and I would be glad for any gentleman to suggest a way to remedy it.

Mr. FUNK. In a terminal market there may be a million bushels of grain in a warehouse or 10,000 or 100,000 and a man could be speculating all the time. That is the thing which this bill wants to correct.

Mr. SINCLAIR. If he did such a thing as that, section 9 of the bill would cover it?

Mr. TINCHER. Yes, sir. Let me suggest this, that my idea of the bill is that it will prevent manipulating the market, first, by pub-

licity of the transaction, which we do not have now—he can do that now—and second, the fear of the board of trade on which he is dealing that manipulation permitted on that board will destroy their power to do business.

Mr. VOIGT. To clear this up, if you will refer to line 21 on page 2 of your bill, it provides that the tax shall not be levied where the seller at the time of the making of this contract is the owner of the actual physical property——

Mr. TINCHER (interposing). Covered thereby.

Mr. VOIGT. And if a man has 100,000 bushels of wheat in an elevator and sells that identical wheat, my understanding of the bill is that there is no written record of that sale. Is that right?

Mr. SINCLAIR. There is a written contract, but no tax.

Mr. VOIGT. Where is that provided for?

Mr. TINCHER. On page 3.

Mr. VOIGT. Page 3 only refers to paragraph b. The contract called for on page 3, in my opinion, would not refer back to paragraph a.

Mr. SINCLAIR. Did you mean that the quotation applied to both subdivisions?

Mr. TINCHER. No. It may be that if a man had 100,000 bushels of wheat and sold it that would end the transaction and he would not be exempt then to sell it a dozen times. If he sells it he is no longer the owner of the physical property.

Mr. VOIGT. He can make a sale of the 100,000 bushels of wheat without making a record. The first sale of the 100,000 bushels under this bill does not have to be evidenced by any record?

Mr. TINCHER. No; I still think that should be in the bill. I do not think that the physical owner of the grain should be liable to a tax of 20 cents a bushel unless he has made a written contract, because the farmers of this country have enough hardships. I would rather take chances of catching the man who is trying to violate the law.

Mr. HAYS. If a man owns 100,000 bushels of grain, has the physical property, and sells it at one time, he is not required to register that transaction, because he is the physical owner?

Mr. TINCHER. Yes, sir.

Mr. HAYS. But if he undertakes to sell it a second or third time or fourth time, he is then selling wheat without being the physical owner and falls within the provision of registration required here?

Mr. TINCHER. If he has 100,000 bushels of wheat and sells it he would not be required to make the report. If he sold it three or four times it would be a clear violation of this law unless he made the report.

Mr. KINCHELOE. If he is the physical owner of the grain why should he make any records at all if he makes a sale?

Mr. TINCHER. He should not.

I had not intended, Mr. Chairman, to offer any other testimony this morning. There is one man here who would like to be heard for a little while, and if you wish we can hear him until Senator Dial comes, and then you can excuse him until Senator Dial concludes.

The CHAIRMAN. Who do you want to put on?

Mr. TINCHER. I intended to call the secretary of the farmers' organization, but I do not see him here, and if Mr. Marsh wants to speak to the committee now, perhaps, we had better hear him.

STATEMENT OF MR. BENJAMIN C. MARSH, SECRETARY AND DIRECTOR OF LEGISLATION, FARMERS' NATIONAL COUNCIL, BLISS BUILDING, WASHINGTON, D. C.

Mr. MARSH. Mr. Chairman, I am sure I do not need to say that the farmers of America—and I can speak officially only for the members of the farmers' organizations affiliated with the Farmers' National Council—would like to have legislation promptly enacted which will prohibit, if that can be done, any gambling in their grain products which results in a lower price to the farmers and in a higher price to the consumers.

I wondered in studying these two bills whether this purpose can be achieved better by exercising the taxing power of the State or by direct prohibition. You have doubtless studied that, Mr. Tincher, and feel that it can be accomplished better by a tax upon an illegal or extralegal proceeding.

It does seem to me, though, while expressing an indorsement of the principles of this bill, that it would be only just to state and only right to state that we ought to inquire into what are the primary causes which have led to the tremendous slump in the prices which farmers get for their wheat and other products, or did get last year and are now getting for last year's product and crops, and try to reach those also, because I am confident that this committee wants to get at the real causes of the farmer's disaster.

Now, I believe those two chief causes, and the farmers I have talked with in a great many of the States agree with me, are the enormously high freight rates and the absolute inability of the farmers to secure adequate credit to enable them to market their products in an orderly way throughout the year, instead of being forced to dump them upon the market practically within 60 days after they are harvested.

I know you can not deal with more than one subject, or I understand you can not, in a single bill, but I feel that on behalf of the Farmers' National Council I would like to suggest that this committee, charged with trying to get agriculture over the disaster which it has suffered during the past eight or nine months, should give consideration to this side of the question.

I have never seen any accurate estimate of what the effect of gambling in grain is. I think this bill is a very good step in the right direction of securing control of those organizations and individuals who handle products which they do not produce.

A discussion has come up as to the relative merits of business in government and government in business. That all depends upon the business and also depends upon the government. There is no doubt that the farmers are very anxious to have this gambling stopped. Whether this bill will do it—and I presume I may speak also with reference, Mr. Chairman, to your bill. I presume you also have under consideration your own bill on this matter, if I understand correctly?

The CHAIRMAN. It has been introduced; yes.

Mr. MARSH. And I assume that bill is also before the committee. Personally, we do not see that there is going to be any elimination of the gambling in farm products until the farmers are organized, as

they are now being organized, to market their commodities as a commodity, so that no grain exchange or board of trade intervenes between the primary producer and the ultimate or the nearly ultimate consumer. Of course, different farm organizations are going at this in different ways. Congressman Sinclair can doubtless give to the satisfaction of this committee full and complete information about the situation in North Dakota. They are establishing their own elevators and their own milling plants, and they did it because the Minneapolis Chamber of Commerce and other similar organizations who like to reap where they have not sown and reap a great deal more than the sowers ever do reap, drove them to this definite action on the part of the State. I do not know whether it is the thought of Congressman Tincher, and may I ask him a question?

Mr. TINCHER. Certainly.

Mr. MARSH. I would like to ask whether he suggests this bill as a substitute for commodity marketing or believing that it will accelerate and facilitate commodity marketing of wheat?

Mr. TINCHER. Do you mean commodity marketing? Is that the word you intended to use?

Mr. MARSH. Well, marketing the whole crop either by a pool or through a sales agency organized and controlled by the farmers.

Mr. TINCHER. It has no connection with it and no reference to it and should be the law whether there is commodity or community marketing, I think.

Mr. MARSH. Irrespective of any plan.

Mr. TINCHER. I do not think there should be any gambling in food products, pure and unlimited gambling in food products, either by communities or individuals.

Mr. MARSH. I entirely agree with the Congressman on that, but may I ask this question: What would be the bearing of this bill of yours if there were a pool to purchase all the wheat raised in the United States and hold it for a given price?

Mr. TINCHER. I did not contemplate any such proceeding as that in drawing this bill and it does not have anything to do with it.

Mr. MARSH. That is the information I wanted because the wheat growers practically throughout the United States are very much interested in the plan for either pooling their wheat or selling it through a common sales agency, and I did not know what effect and bearing your bill would have upon that plan.

Mr. THOMPSON. That refers especially to cooperative marketing.

Mr. MARSH. To cooperative marketing; yes. Would the terms of this bill apply, for instance, to farmers' cooperative organizations dealing in wheat?

Mr. TINCHER. Not at all.

Mr. SINCLAIR. They would be the physical owners of the property.

Mr. TINCHER. The Farmers' Union, which is engaged in the promotion of the interests of farmers as extensively as any organization in the United States, has indorsed this bill, as I understand, at a national meeting which they held here in Washington. They indorsed the spirit and text of this particular bill.

Mr. MARSH. That is the indorsement we wanted to give, but I wanted to be clear on the point as to what effect it would have upon any 100 per cent or 90 per cent marketing of the wheat crop through any private agency of the farmers.

My only suggestion, then, would be, so far as this bill goes, Mr. Chairman, that we would heartily indorse the principle of it, and merely ask whether it would be possible to make a direct prohibition instead of trying to prohibit or attempting to prohibit speculation through the taxing power; and, secondly, that the committee will promptly take into consideration these other two causes of the farmers' disaster—the high freight rates and inability to secure credit.

I thank you very much.

STATEMENT OF HON. N. B. DIAL, A SENATOR FROM THE STATE OF SOUTH CAROLINA.

The CHAIRMAN. Senator Dial, we will be pleased to hear you.

Senator DIAL. Mr. Chairman, I was before your committee last fall, and I have an amendment to the cotton futures act pending which I introduced in the Senate. I would like very much for you to consider that. I do not know whether you want me to go over the matter again or not. I went pretty fully into it last fall and you had my statement printed and that statement covers my position pretty thoroughly.

The CHAIRMAN. Your bill will be inserted at this point.

[S. 385, Sixty-seventh Congress, first session.]

A BILL To amend section 5 of the United States cotton futures act, approved August 11, 1916, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5 of the United States cotton futures act, approved August 11, 1916, as amended, be, and the same hereby is, amended as follows:

In the fourth subdivision of section 5 of said act, insert "(a)" after "fourth," and before "provide," and add at the end of such fourth subdivision:

"(b) Provide that unless cotton in the basis grade be tendered in settlement of such contract, the buyer shall have the right to demand that one-half of the amount deliverable under the contract shall be delivered in equal quantity in two grades, to be specified by him, and that the seller shall have the right to tender one-half of the amount deliverable under the contract in equal quantity in two grades to be specified by such seller."

The foregoing amendments shall be effective on and after the thirtieth day after the approval of this amendatory act, but nothing herein shall be construed as applicable to contracts entered into prior to the effective date of this amendatory act, or to affect rights acquired or powers exercised thereunder.

Senator DIAL. Briefly, gentlemen, I am satisfied that the present future contract law operates very unfairly. To be perfectly frank with you, I raise cotton, and was raised on a farm and have handled cotton more or less all my life as a farmer, and I did not know the law was one-sided until a year or two ago.

All my life I have heard that the farmers were robbed and chiseled and all that kind of thing without the accuser specifying wherein the farmers were robbed. The only reasonable explanation I ever heard of it was given by my father, who was a successful farmer in a modest way. He said that the exchanges kept a great deal of off-grade cotton on hand to tender on contracts and thereby depressed the price.

Later in life I heard men who were running for office complain that the farmers were robbed and cheated without going into details. Their statements never made much impression on me. I am an optimist, and I believed that Congress was just and honest and that they would not knowingly pass a law to oppress any section or any class of our people, and therefore I would pass such charges by, no one ever having gone into the reasons why that was true or how the law operated unjustly to the growers.

However, for the last few years I have looked into the matter. I have been in the Senate two years now. I got the act and read it and looked into it.

Many years ago, as you know, there were 20 grades of cotton tenderable on contracts. A few years ago the number was reduced to 10 grades. The parties who had that done deserve great credit. They helped to improve the conditions somewhat, but, unfortunately, to my mind, they did not go far enough.

It may be a somewhat bold statement for me to make, but I am satisfied that the futures law has always been wrong. The seller of the contract has always had the option or the right to tender any grade he saw proper, even before they reduced it down to 10 grades, and now the law is that the seller of the contract has the right to tender any one or all of the 10 grades. That is absolutely unjust, it is unfair, it is not right, it is not honest, and I do not think the Congress ever intended it to be that way. I do not think they realized it, and I am sorry to say that even our people in the South know very little about the contract law and about marketing.

The CHAIRMAN. I might state, Senator, that that has been the bone of contention in all the hearings and it was limited, as you have stated, to a certain numbers of grades, and certain other restrictions were made later.

Senator DIAL. I think the number of grades is very proper, and I have no kick about the number of grades.

Mr. JACOWAY. Senator, may I interrupt you?

Senator DIAL. Certainly.

Mr. JACOWAY. In reference to the 10 grades that are deliverable under a contract, I want to ask you if that is true under the law as amended?

Senator DIAL. Yes, sir.

Mr. JACOWAY. In other words, if I sold you 1,000 bales of spot cotton, and I could not deliver the spot cotton, then that was to be adjudicated on the commercial difference as opposed to a fixed difference on the board.

Senator DIAL. Yes.

Mr. JACOWAY (continuing). As was previously the law.

Senator DIAL. The law now is that you can buy spot cotton on the board, but, as a matter of fact, the New York Cotton Exchange has never put that contract into operation.

Mr. JACOWAY. That is the law.

Senator DIAL. That is the law, exactly, and I have been after the Department of Agriculture as to why they did not force them to do that, and I have not received any satisfactory reason. Therefore it just goes on still in this way that I have stated, the seller having the option of tendering any one or all of the 10 grades.

Mr. JACOWAY. I would like to ask you this question: I notice you recommend the reduction of these grades from 20 to 10.

Senator DIAL. No; that is already the law. That was done several years ago.

Mr. JACOWAY. I mean you indorse that.

Senator DIAL. I have no objection to that.

Mr. JACOWAY. I would like to ask whether after that law was enacted spots and futures were not nearer together, following the enactment of that law, than ever in the history of the country?

Senator DIAL. Yes.

Mr. JACOWAY. When spots and futures are together, is it your judgment that that always inures to the benefit of the producer?

Senator DIAL. No; not necessarily.

Mr. JACOWAY. Why not?

Senator DIAL. It should help, however. The future should be an index of the spot.

Mr. ASWELL. Senator, may I ask you a question? Inasmuch as we do not know very much about this proposition, as you have just stated, and I agree with you, would it be better to tack this on to the other bill as an amendment or to wait and have a conference with the cotton-growing people and find out just what we want to put into a separate bill?

Senator DIAL. I introduced such a bill last year but I did not press it, but now I am very anxious to get it through. We are all aroused about trying to help the farmers. I do not want any unjust law for the farmers. I am interested in farming and am interested in mills and interested in banks and other things, but I want a fair law, a 50–50 contract. I want a just law, and I think you all had better pass it over here any way you can, as quickly as possible, and I think we can get it through the Senate, and I think now is the time to do that.

Mr. ASWELL. Do you think we ought to tack it onto this other bill?

Senator DIAL. Yes; I think so.

Mr. ASWELL. Or should we have a separate bill that was thought out carefully?

Senator DIAL. Of course, you would want to work it out. My suggestion would be that this committee appoint a subcommittee that would have before them Mr. Stephenson and Mr. McClintic and some of those men who understand the cotton situation. Without meaning any reflection on the Members, in the South we do not know anything about the future contract law. There is not one man in ten thousand or perhaps in twenty thousand who knows about it. I profess to be ordinarily intelligent and I did not know anything about it myself, and just presumed it was all right and went along.

Now, Mr. Chairman, I am just assuming that some of you gentlemen do not know anything about cotton, and to be plain with you, what I am trying to get is a contract that will properly function.

I lay down the proposition that the spot market is governed by the future market. Some may contradict that, but to prove my case, briefly, I was at home on election day, the 2d of November. I am president of a little bank down there and one of my customers came in and said, "Colonel, I owe the bank a little note and I have brought

here the money to pay it. I have sold my cotton." As you gentlemen know, we gather our cotton and put it on wagons and carry it to the gin and and gin it and then carry it, perhaps, to the market right on the wagons. I said, "All right, my old friend, but why did you not bring in a check." He said, "I did not sell it here. I sold it up at the mill." I asked him what he got and he said, "I got 20½ cents for my cotton, but the man whose wagon was just ahead of me got 21 cents. I took out my mules and fed them, after I weighed my cotton, and the next man only got 20 cents." Now, there was a fluctuation of 1 cent a pound, or $5 a bale, within an hour. Now, why? That was not because that cotton fluctuated in price or in intrinsic value. It was simply on account of the future market. They get the market down there every 20 minutes or perhaps every hour, depending upon how much you pay for it. It is customary in these towns to get the market every 20 minutes.

Now, that cotton fluctuated there $5 a bale. That would mean, if the whole cotton crop of the South was on hand, 12,000,000 bales—$60,000,000 of fluctuation in an hour. Now, there is no good reason in the world for that. As honest people we know that the actual value of that cotton did fluctuate in that time. I am not kicking against the mills about that, because the mills buy cotton as cheap as they can, but here is the man who digs that cotton out of the ground having it fluctuate in this manner, and he has no control over it.

I am not here fighting the exchanges. I care nothing about the exchanges one way or the other. I am not here trying to get an unjust law for the farmer or for the mill or for anyone else. I want a fair, 50–50 contract, and an honest, just, and equitable contract. If I had any favors to give I would give them to the farmers.

Mr. TINCHER. Senator, do you think that transactions in actual cotton caused that cotton to fluctuate 1 cent a pound on the board of trade?

Senator DIAL. When the report came in the contract price was down and the mill put the price of the cotton down. It was governed by this gambling transaction.

As I say, I am not fussing about the exchanges. I am not here growling about them. I do not care about that. Some people say that is a good thing. Perhaps it is. I am not trying to close them up, but if it can not operate under a just and equitable law then let us close it up.

Now, we hear speeches over in the Senate day after day about this matter. It is really a very short proposition. They say the exchanges are not intended to affect the spot cotton market; that they are intended as a hedging propostion. I do not care, if you can separate them from the spot cotton, and then they can hedge and bet on the weather or on a horse race or bet heads and tails; but I do not want that superstructure interfering with the spot cotton or the man who grows it. That is what I am growling about.

Now, right there is where I think the wrong comes in now in the law, and that is under the contract the seller of this future business has a right to select any one of the ten grades or all of them. Now, here is the way the thing operates: The farmer brings his grain onto the market in the fall. We all know that he has to sell within three

or four months. He puts it on the market, not knowing anything about this superstructure in New York or New Orleans. He supplies the legitimate demand. The speculator, knowing that the farmer has to sell in order to meet his financial obligations at home, will go and sell futures and depress the market. Then the man who has bought a contract, the time coming for that contract to mature, knowing he has no option or selection, will sell out that contract. Therefore, there is always a selling. They will tell you here in Congress that there can not be a sale unless there is a purchaser and a seller, too. That is true, but there can be more offers than there are acceptances, and therefore you depress the market all the time. That is the point I make.

Let us assume, Mr. Chairman, that you are the president of a mill, and you get an offer for all the goods you can make for the next six months. Let us assume that that offer is satisfactory to you. You have your labor, and you have got your mill running nicely, with everything rigged up properly. You call in your superintendent and say, "Mr. Superintendent, here is an offer for all the goods we can make in the next six months. It will take 1,000 bales of cotton a month to make these goods. Let us accept that offer." He will say, "Very well. Now, how about the cotton?" You will state, "Well, we are going to buy the cotton, and we will telegraph our commission man to buy 1,000 bales of cotton each month." Then you will say to the superintendent that, having made this trade and everything going along smoothly, "I am going away, and you can just take the cotton and run the mill and deliver the goods"; but, Mr. Chairman, he will then say to you, "We can not get the right kind of cotton. When this man delivers us that cotton it will be an off grade. Our mill is rigged up to spin, for instance, the best grade of cotton—No. 10 we will call it, or middling fair, or, to use numbers instead of grades, No. 10 or No. 9 cotton—our mill can not spin No. 1 and No. 2 cotton, and we can not make this cloth out of No. 1 or No. 2, and the seller will offer us 1,000 bales of No. 1 or No. 2, and we can not use that at all. We will have to shut down the mill and send down South and buy the cotton and send it up here, and we do not want to do that." Well, the president will say, "That is true, and that can be done under the law"; and then the president will say, "Mr. Superintendent, just demand half of it, and get half that we can use and take the other half and sell it to some other mill or get rid of it in some other way." Under the law the man has a right to tender them all of one kind or mix it up in any way he sees proper. So you have not hedged much after all, don't you see?

Mr. JACOWAY. Senator, right there, I think, is the crux of this whole situation.

Senator DIAL. Exactly.

Mr. JACOWAY. If your interpretation of the law is correct, then mine is wrong. My idea is that they can not deliver any of these 10 grades.

Senator DIAL. Why not?

Mr. JACOWAY. Because under the definite, specific provisions of the law they have got to deliver the exact grade they buy, and if they can not deliver that, then it is adjudicated on the commercial difference as opposed to a fixed difference which was formerly the rule of the exchanges.

Senator DIAL. No; you have got that wrong. They have not put that into effect. I took that up with the Agricultural Department last summer. I went over there when Congress was not in session and told them that I had come to spend the day with them. They brought in all their experts and looked into it thoroughly, and when I asked them about it, I do not think I am violating any confidence when I say that when I asked them if they thought the present law was operating fairly, they said they did not.

Mr. ASWELL. That it was unfair to the ginner?

Senator DIAL. Unfair to the grower because by reason of manipulating the future market you depress the spot market.

Mr. ASWELL. I had reference to these different grades.

Mr. TINCHER. If the fault is in the administration of the law, do you not think we can inject a new outfit down there?

Senator DIAL. That is one fault, but that does not go far enough. I asked the department down there, "What are your objections to the Comer amendment"? You gentlemen heard last year a great deal about the Comer amendment. Senator Comer's amendment briefly was this: The seller now has the option of tendering any of the 10 grades. Senator Comer said, "Let the purchaser select one-half of the quantity in middling fair and above." They created a row about that but I helped him pass that through the Senate and you all killed it in the House. I asked the Agricultural Department about that. I said, "Let us get together and get the cobwebs out of the way. What are your objections to the Comer amendment? I know what they are but I want you to state them again." They said, "Under the Comer amendment the purchaser, having the right to select half the quantity of the contract, would select all of that one-half in middling fair and there is very little middling fair raised, as we all know, and therefore the man could not deliver middling fair and the price would go sky high." I said, "Very well, I see that. That is not right. I am not trying to run the price sky high or to help a man make a corner one way or the other. My idea was that if we let the purchaser select one-half the quantity and if that ran the price sky high, I could not see as much sin in that as in letting the seller select all the quantity and deliver it in dogtail cotton and run the price cellar low, and therefore I thought that Senator Comer was just half as guilty as the other man, and therefore I took the half sin and helped him to pass that amendment through the Senate."

Mr. JACOWAY. If the Comer amendment became the law, would not the effect be that that would cause the higher-grade cotton to go sky high and would outlaw the lower grade?

Senator DIAL. No; I do not think so. That was the objection urged against it, and that was the reason it was killed in the House. I do not think so. I think it would have helped, but I do not think the Comer amendment was absolutely fair. I did not insist on it. I begged Senator Comer to amend his act so that the purchaser would select one-half of the quantity and then divide that up into some number of grades.

I said to the Agricultural Department, and I say here now, let us get down to the point. Let us go ahead and let the seller of the contract have the option of selecting one-half of the quantity, provided

he divides that equally between five grades, and lets the purchaser select the other half, provided he divides that equally between five grades. Now, that gives the whole bill of fare, and you spread it out among the 10 grades. The Agricultural Department thought that that would be cumbersome, and possibly it is. I do not say that that is workable, gentlemen, but I do say that it is honest; I do say that it is fair; that it is a 50–50 contract, and that is what I am trying to get.

Mr. JACOWAY. That would take in every grade of cotton grown.

Senator DIAL. Every one within the 10 grades and give them the right to take what they wanted. Now, to go on a little further, the Agricultural Department did not much favor that, to be candid with you, and I said, "All right, gentlemen, I am not insisting on that at all, but I had thought of proposing an amendment to the law to that effect."

Now, to come down to the point, I said, "Gentlemen, here is what I am going to propose, and what I have proposed, to wit, let the seller select one-half of the quantity of the contract, provided he divides that equally between two grades, and let the purchaser select the other one-half and let him divide that equally between two grades."

My other proposition may have involved keeping a great quantity of cotton on hand and may have been impracticable or burdensome, but I do not think this present proposition would be; that is, to let the seller select one-half of the quantity and divide that equally between two grades and to let the purchaser select the other half and divide that equally between two grades. I think we would stabilize the price, if that were the law.

Mr. ASWELL. Under that law the purchaser would select the two highest grades and the seller would select the two lowest grades, and you would only have four grades. What would become of the other six grades?

Senator DIAL. He might select some of the middle grades.

Mr. ASWELL. But as a practical matter would he do that? Would not the purchaser select the best?

Senator DIAL. Not necessarily, because a great many mills can not spin the highest grade. The tremendous majority of them would not spin that grade; in fact, a very few of them would.

Mr. JACOWAY. Would you make the selection simply from the numerical grades or would you make the selection from the standpoint of the cotton itself?

Senator DIAL. I would just let those parties select whatever they wanted or whatever they could tender.

Mr. JACOWAY. There are fewer bales of cotton of the high grades than of the low.

Senator DIAL. Of course, but we are growing more and more of the high grade and the tendency is to grow more of that kind.

Mr. JACOWAY. If you made it a numerical selection, then you would have an inequity and an inequality.

Senator DIAL. No; the difference in the price would regulate that. I have no kick about the parity between the grades because that is regulated by the price.

Mr. TINCHER. Senator, the bill we have up for consideration now is to abolish gambling in wheat futures. We do not abolish the grain exchanges because they have other functions in reference to grain, and I suppose that may be true in reference to cotton. The real thing, as I understand you, that you are suffering from, is that the gamblers fix the price of the raw cotton.

Senator DIAL. They do, absolutely.

Mr. TINCHER. I do not know whether it is feasible, but I did not put cotton in because I did not think there was any harmony among the cotton owners. Do you not think that it would be all right to abolish gambling in grain futures and to permit the law of supply and demand to control?

Senator DIAL. Yes. In 1914, when the exchange was shut up, the price went all to pieces and there were pretty hard times with the cotton people, because there was nobody to buy.

Mr. TINCHER. I do not think that is a fair or parallel proposition.

Mr. JACOWAY. In your judgment, Senator, are there more bears upon the market offering to sell than there are bulls?

Senator DIAL. Well, I think that depends on circumstances, but as a rule I think there are. I think that the bears can contend with the farmer, who is always a seller.

Mr. JACOWAY. He is a bull?

Senator DIAL. But he has to sell in order to get the money to pay his debts.

Mr. JACOWAY. Does not that have a tendency to depress the market?

Senator DIAL. Yes, sir. That is the point exactly. I say this, why should any man buy a future contract—he buys it either to speculate or to hedge. He would not buy at all unless he thought it was very cheap. Therefore to my mind there is a constant stream of sellers pressing the price down. I do not know how much it depresses the value of that proportion of each crop, but it must be a tremendous amount.

The CHAIRMAN. What you are contending for is a contract between the buyer and seller?

Senator DIAL. Yes, sir.

The CHAIRMAN. As it now stands it is one-sided, absolutely?

Senator DIAL. Yes, sir; absolutely.

The CHAIRMAN. And only one party has anything to say about the grades to be delivered?

Senator DIAL. Yes, sir. The buyer has to stand and take what is delivered to him and then sell it.

The CHAIRMAN. That cotton futures act provides for the commercial differences that might be determined by the Secretary of Agriculture.

Senator DIAL. To give him what he wants or pay him cash—I would not object to that—but when you sell him some small ragtail stuff that he can not use——

The CHAIRMAN (interposing). You are in favor of the provision in the cotton futures act that provides for commercial differences?

Senator DIAL. Yes, sir.

The CHAIRMAN. Commercial differences which shall be determined by a disinterested party?

Senator DIAL. I have no objection to that, but I object to allowing the seller to tender the cotton if he makes him settle in cash.

The CHAIRMAN. That is a one-sided affair?

Senator DIAL. Yes, sir. I really believe if Congress realized the situation that would not be permitted.

The CHAIRMAN. An effort was made to have that covered in the bill, but it was impossible because many were against it. There should be contract fair to all parties interested, and some disinterested party should determine what the actual differences are, and every grade should be in accordance with the Federal Government's standards?

Senator DIAL. Yes, sir.

Mr. JACOWAY. Is not that the law to-day; is not that what this committee intended it should be when the committee reported the law?

The CHAIRMAN. That is in the cotton futures act.

Senator DIAL. You can let that stand and correct it by giving the purchaser the right to select half of the quantity; I do not care whether you put it between two and five grades, but make it 50–50.

Mr. TINCHER. I think that a bill affecting the grades of cotton should be a separate bill. This bill contemplates abolishing the gambling in grain futures.

Senator DIAL. Yes, sir.

Mr. TINCHER. I understand there is a serious difference in regard to abolishing gambling in cotton futures.

Senator DIAL. I do not think they would object to your bill if they understood it. I should like to get a unanimous report from your committee, and then I am satisfied that we can get it through the Senate. I begged Senator Comer to change his amendment, but he would not do that.

Mr. TEN EYCK. Your recommendations here in no way are to be taken that you recommend the abolishing of the cotton exchange?

Senator DIAL. No, sir.

Mr. TEN EYCK. Just recommendations with regard to the present system of the cotton exchange?

Senator DIAL. Yes, sir; absolutely. It does not make any difference whether the purchaser has the right to tender or the seller, but let the purchaser select and then you would see where the cotton would go. I do not think we understand it. I do not think it is realized at all. There is Senator Comer, who is a very successful and prosperous man, as I understand, in Alabama, absolutely honest—I received a letter from him the other day. He says do not make it all one grade; have it graded up and down—a discount below and a premium above. He says it is absolutely impossible to standardize commodities.

The CHAIRMAN. Why not make it one above and one below?

Senator DIAL. They will tell you that if you grade cotton the contract must be sufficient to take in all of the cotton.

The CHAIRMAN. If the contract provides for Nos. 1, 2, 3, and 4, one or more of the four grades would have to be delivered and that would give the spinner the cotton somewhere near what he might desire?

Senator DIAL. Yes, sir. Assuming that you are running a mill on high-grade cotton, when the time came for delivery if the price was away down yonder, if you had a right under my proposition to take one-half of what you wanted, then you would take the half that you wanted and would not take the other that you did not want.

The CHAIRMAN. That practically brings it down to the 50–50 proposition?

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Tuesday, April 26, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

There were also present: Mr. Purnell, Mr. Voigt, Mr. McLaughlin of Nebraska, Mr. Riddick, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Clague, Mr. Clarke, Mr. Jacoway, Mr. Aswell, Mr. Kincheloe, Mr. James, and Mr. Ten Eyck.

The CHAIRMAN. I desire to call the committee's attention to a communication received from Mr. Skinner, secretary of the Chamber of Commerce of the United States of America. It reads:

APRIL 25, 1921.

Hon. GILBERT N. HAUGEN,
Chairman Committee on Agriculture,
House of Representatives.

DEAR MR. CHAIRMAN: The board of directors of the Chamber of Commerce of the United States, now in session in connection with the annual convention of the chamber, which is being held at Atlantic City this week, has adopted the following resolution:

"The Committee on Agriculture of the House of Representatives is formally requested to extend its hearings on the Tincher-Capper bill, providing for regulation of boards of trade, to any date after May 1, which will permit the Chamber of Commerce of the United States and its constituent members affected by the proposed legislation to prepare and present their views. The Chamber of Commerce of the United States, including all of its constituent members, is in session this entire week, the dates for which were set many months ago. In addition to this, the Chicago Board of Trade, one of the chamber's constituents desiring to be heard, is expected to present by prior arrangement its views on similar legislation at hearings before the agricultural committee of the Illinois State senate on April 27 and 28, which are the same dates as the dates set by the House Committee on Agriculture. It is not possible on such short notice to cover adequately the hearings of the House committee in addition to its other commitments. Assurance is therefore asked that hearings beginning on April 25 will be extended as requested or opened again on any date after May 1 to permit presentation of important testimony on this matter."

Very earnestly hoping that you and your committee will grant the request which is made by our board of directors, I am,

Very truly, yours,

D. A. SKINNER, *Secretary.*

Mr. TINCHER. The chairman called my attention to this letter. The letter is written by the Secretary of the Chamber of Commerce of the United States of America from the Mills Building, Washington, D. C., and the best ground for asking the continuance, stated in the letter, is that the Chicago Board of Trade want representatives to appear before us, and that the Chicago Board of Trade have hearings on similar legislation to this at Springfield, Ill., on April 27 and 28,

and they want time to send, I suppose, those same men here after that. The Chicago Board of Trade was represented at the other hearings by the president and the secretary, and I suppose most of the members of the committee who were not on the committee at that time have taken occasion to read their testimony, and in view of that fact and the fact that we know the enemies of this legislation are going to ask for a continuance, not only until after the 1st of May, but we know now that they are going to ask for a continuance until after the 1st of October, and we know that they will ask for a continuance until after the 1st of December, I move you, Mr. Chairman, that this letter be laid upon the table.

Mr. ASWELL. We might tell him that if they are to be heard at all they will have to be heard this week.

Mr. JONES. I suggest, Mr. Chairman, that they be notified that the hearings have already been set for this week and that next week will be taken up with hearings on other matters.

Mr. WILLIAMS. It seems to me, Mr. Chairman, if they only ask for a day that it is a matter of sufficient importance for them to be heard.

Mr. TINCHER. They do not simply ask for one day. Here is what they ask for: "Assurance is therefore asked that hearings beginning on April 25 will be extended as requested or opened again on any date after May 1 to permit presentation of important testimony on this matter." They will never ask that these hearings be closed. They will ask that they go on indefinitely. There is not any question in the world about that. I would suggest that when we close these hearings—after we have finished here Friday night—if the members of the committee want to hear some man like Mr. Gates, although we have his testimony here and the testimony of the ones they mention there, I think; but if some member, after we close the hearings, wants to open them up again for the purpose of hearing some particular man I am not going to be mean about it, but I do not think right now we ought to let it go out that we are going to indefinitely postpone these hearings and continue them. Every man that that letter is written in the interest of is against any legislation to prevent gambling in food products.

Mr. MCLAUGHLIN of Nebraska. Mr. Chairman, if this was a request for one day, specifically——

The CHAIRMAN (interposing). It is for the committee to determine how much time will be given. I take it that one day for each side would be satisfactory.

Mr. MCLAUGHLIN of Nebraska. If it was a specific request for one or two days, or whatever it might be, with the days named, I would rather feel inclined to favor it; but since it is so indefinite, and inasmuch as they simply ask that the matter be opened some time after May 1, I think the thing to do is to go ahead according to previous arrangements, and, as Mr. Tincher says, if, after the hearings are closed some member desires to have a party heard, I would be in favor of considering each specific case at the time, and not let word go out to the country that we are continuing these hearings indefinitely.

Mr. TINCHER. I predict, Mr. Chairman, even in the face of that letter, that to-morrow or the next day we will hear testimony from some of those men. I know that those institutions are big enough so

that they can take care of their business in Springfield, Ill., and Washington on the same days.

Mr. JONES. The Springfield, Ill., engagement can wait just as well as this one, and it surely is not more important.

The CHAIRMAN. I am sure the committee will make time by granting one day to each side after we get through with the packer hearings. We can not make progress with any bill, either in committee or in the House, unless we act absolutely fair with everybody.

Mr. TINCHER. I want to be fair.

The CHAIRMAN. The notice has been very short, and yesterday we were in session a half day instead of a full day. I do not know how long we will be in session to-day, but the time is going to be exceedingly short.

Mr. KINCHELOE. It was not our fault that we did not devote the entire day to the hearings, because we were sitting here ready to hear them all day.

The CHAIRMAN. The notice of hearings was exceedingly short, and necessarily so, because the committee was not organized until Monday of last week, so we could not give longer notice, but we must all admit that the notice was very short.

Mr. ASWELL. Mr. Chairman, I call for a vote on Mr. Tincher's motion. He made a motion to lay the letter on the table.

Mr. WILLIAMS. What does that mean, Mr. Chairman—that we deny the hearing?

The CHAIRMAN. That is what it amounts to.

Mr. TINCHER. No; it means we will proceed under our old original order, and if any member of this committee wants to hear some one later who has not testified we will do it, but right on the second day of the hearings to grant an extension until after May 1—that would take it after next week, because the hearings on the packer legislation are to begin next week, and that would mean putting this over until the 15th.

The CHAIRMAN. After all, the motion means denying the request by laying it on the table.

Mr. TINCHER. For the present; yes.

(The motion, having been duly seconded, prevailed.)

The CHAIRMAN. Mr. Dickinson, the committee will hear you now.

STATEMENT OF HON. L. J. DICKINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA.

Mr. DICKINSON. Mr. Chairman and gentlemen of the committee, in view of the fact that Iowa produced about 473,000,000 bushels of corn last year, and the tenth district of Iowa produced 78,000,000 of those 473,000,000, and out of the 5,893,000 bushels of oats the tenth district produced 1,318,000 bushels, I feel that I have a decided interest in this legislation.

Many men will say to us that if we destroy the present market machinery and offer no substitute therefor we are going to paralyze the whole industry. It seems to me that the present market system is the growth of a system that was inaugurated in this country and has been permitted to exist for some 50 or 60 years without any regulatory legislation, and that they always make the rules for the pro-

tection of the fellows within the game without any thought for the fellow who is outside of the game and was really producing the stuff that they are marketing. It is a great piece of marketing machinery, and a great many men have written long articles elaborating on its benefits, and there are many benefits in having a ready market to consume our products at the time when we want to sell them; but by their present system they have permitted to grow up certain phases of manipulation and speculation, short selling, puts and calls, that seem to me are not a legitimate part of a marketing system and that should not have the approval of this committee.

In support of that I want to read to you from an article by Rollin E. Smith. Many members of the board of trade have sent out books and pamphlets supporting the board of trade and its present system. I will quote Rollin E. Smith, because he has been an extensive writer on the board of trade, and under date of February 11, 1921, in Wallace's Farmer, of Iowa, which is one of the leading publications in the Middle West and owned largely by the present Secretary of Agriculture, I find this statement:

> The writer has published many articles explaining the good features of the market system (including an exhaustive article on hedging) and the benefits to the grain grower, the miller, and the grain dealer. He has hoped, and until recently has believed, that reforms would be made by the exchange itself, but it now seems evident that the board of trade has no idea of curbing overspeculation, and it shuts its eyes to manipulation, justifying itself by the so-called insurance that hedging facilities offer to the trade.
>
> The argument is that as hedging is a benefit, therefore to curtail speculation would be to menace the entire system. The present president of the board of trade said, just before going to Washington in January to attend the committee hearings on grain futures bills, that he would "defend the board of trade but not apologize for it." There is where he is short-sighted, for he should not only apologize for some things that are done on the board but he should be as enthusiastic in trying to cure the abuses of overspeculation as he is in defending the system of trading as a whole.
>
> After 20 years of close contact with and study of the markets it seems to the writer that the fundamental weakness of the grain-exchange system is overspeculation on the part of its members. This runs into manipulation. In addition to this, the rule of the board of trade regarding deliveries of grain on contracts made in the pit—contracts in "futures"— is also fundamentally wrong.

And then he goes on with quite an elaborate discussion of the matter.

Mr. PURNELL. When was that article written?

Mr. DICKINSON. I can not give you the date it was written.

Mr. PURNELL. Recently?

Mr. DICKINSON. It is an article by Rollin E. Smith, appearing in Wallace's Farmer under date of February 11, 1921, published by the Secretary of Agriculture, at his Des Moines plant.

The manipulation goes further than simply overbuying or overspeculating. It goes into this phase of the thing: A commission firm is selling for my people out in the tenth Iowa district and buying on their own account; in other words, they are working both sides of the game.

Now, what remedy do I offer? What do I say in my bill is the proper method of getting at this thing?

Section 3 of the bill I have introduced here simply provides this:

> That upon each contract of sale of any grain for future delivery, as shown by the record hereinafter to be kept under the provisions of section 9 of this

act, wherein warehouse receipts or other evidence of ownership showing actual delivery and transfer of said grain from the seller to the buyer are not produced in settlement, there shall be levied a tax in the nature of an excise tax of 10 per cent of the total consideration involved in said transaction.

Now, what does that mean?

Mr. JONES. Mr. Dickinson, have you an extra copy of your bill?

Mr. DICKINSON. I think there are some extra copies here.

The CHAIRMAN. They have all been withdrawn from the document room.

Mr. JONES. I have not read the bill and I was anxious to see it.

Mr. DICKINSON. This is the gist of the whole thing and I will read you section 3. Shall I reread it?

Mr. JONES. I wish you would, if you have no objection.

Mr. DICKINSON. Section 3 is the gist of the bill and reads as follows:

That upon each contract of sale of any grain for future delivery, as shown by the record hereinafter to be kept under the provisions of section 9 of this act—

I provide in section 9 that the records of the board of trade shall be open and publicly kept under rules and regulations laid down by the Secretary of the Treasury in imposing this tax—

wherein warehouse receipts or other evidence of ownership showing actual delivery and transfer of said grain from the seller to the buyer are not produced in settlement, there shall be levied a tax in the nature of an excise tax of 10 per centum of the total consideration involved in said transaction; and delivery as herein provided shall not be affected by means of "set-off" or "ring" settlements and not canceled by settling of differences but only by the actual transfer of the specific commodity mentioned in the contract: *Provided*, That the provisions of this section shall not become effective until two years after the date this act becomes a law.

Now, why do I put in that proviso? Simply to give everybody an opportunity to adjust their business to the provisions of the law before it becomes effective. Now, that has been done in numerous acts.

Mr. KINCHELOE. Why should the time be that long? Two crops can pass in that time. Why should it be two years.

Mr. DICKINSON. Simply for this reason: I believe that if the board of trade is sincere in their claim that they want to reform their methods, that they could inaugurate certain rules and policies that would permit this law to become effective without the market being disturbed at all. Certainly, we do not want to disturb present machinery without giving it a chance to readjust itself, as so many of our people are dependent upon this very institution for the delivery of their crops and the converting of them into cash that I hesitate to destroy it without giving due notice.

I think two years was the time in a similar provision with reference to automatic brakes on the railroads, giving them a chance to adjust themselves to the new requirements. Maybe that is too long, but that is for this committee to determine.

Mr. JONES. Mr. Dickinson, under your bill, if a man, in a bona fide manner, bought grain to be delivered in 60 days, he could not go and sell that contract.

Mr. DICKINSON. Yes; he could.

Mr. JONES. Without paying the tax?

Mr. DICKINSON. Yes; he could. Suppose I have 10,000 bushels of grain; I can sell it to Mr. Thompson for delivery in 60 days and Mr. Thompson can sell it to you for delivery in 90 days.

Mr. JONES. The way I caught your reading of the bill, I did not think so.

Mr. DICKINSON. And the same bill of lading can be transferred any number of times. The only thing I want is this: I want the transactions to be confined to the transfer of the article.

Mr. ASWELL. Could Mr. Jones then go and sell that wheat to me?

Mr. DICKINSON. Yes, sir; absolutely. It could be transferred just as often as you please, just like a piece of land. I do not fix any limit on the number of times the same grain can be sold, but I do provide that you must show the actual delivery and transfer of that grain, and then you escape the tax.

Now, the question is: Will this make a broad enough market to permit the present rules and regulations to function?

Mr. VOIGT. Mr. Dickinson, just when do you levy this tax, when the sale is completed?

Mr. DICKINSON. When the sale is completed.

Mr. TINCHER. And you tax all the grain, the delivery of which is not evidenced by——

Mr. DICKINSON (interposing). By actual transfer of the bill of lading.

When you go into the futures, you will find there are many boards of trade in this country that are in existence that do not deal in futures at all. The great future market, of course, is Minneapolis in wheat and Chicago in corn and oats. They practically centralize the market there and fix the prices all over this country. They have various rules and regulations and put out various data as to what determines that price. It is very amusing to me when I read a lot of their data.

They will come in with a big foreign order for wheat, and a man agrees to fill that order. He sells short and goes out to buy. It is very amazing the data they can get into the market reports about an overplus in Canada and about Australian wheat being a double crop, etc., and the price will slump until they can fill that order. After the order is filled and they want to resell some additional wheat, it is amazing how they will have a blight in North Dakota and a frost in Canada and something else down in Oklahoma, and the crop production estimates will be greatly reduced.

I do not believe that that machinery ought to be vested in the hands of a few men who are dealing in the product for the margin only. Therefore, what would this bill do? It would make a man deal in the actual article and in that article only.

I listened to the hearings here, the same as the members of this committee. I attended them regularly, and from the hearings here, which form a big volume of nearly 1,100 pages, I can not make an estimate now of how many times 1 bushel of wheat is sold in Chicago before it is actually delivered to the man who consumes it, and I do not believe any other member interested in this legislation can fix an estimate. It will run all the way from 13 to 100 times.

Now, do you men mean to tell the country that you believe it is necessary to let that number of manipulators pass upon your grain,

upon your produce, before it actually goes from the producer into the hands of the man who actually consumes it?

Mr. PURNELL. Mr. Dickinson, is it your contention that every time a bushel of grain is sold and resold, it actually adds to the cost paid by the ultimate consumer?

Mr. DICKINSON. I think it does, without any question whatever, or the expense is deducted from price paid the producer.

Mr. PURNELL. Do you think that is the infallible rule?

Mr. DICKINSON. I think it is.

Mr. PURNELL. The mere fact that men in Chicago or in New York might deal in a speculative way in the grain, betting on the rise and fall of the market, whether it is once or one hundred times, you think adds to the cost paid by the ultimate consumer.

Mr. DICKINSON. I think it does. The only other argument they can bring out here is the fact that the "lamb," as they call him on the board of trade, pays the expense. Otherwise that expense is paid by the consumer. I do not believe that the poor, little lamb that is gathered in on a private wire, who is the fellow that deals on the margins, can possibly keep in existence the hundreds and thousands of men who are doing absolutely nothing but betting on the margins on the board of trade.

Mr. PURNELL. It is a question whether the producer and consumer are keeping these fellows or whether the lambs are keeping them.

Mr. DICKINSON. Yes. You do not believe the lambs are keeping all of them, do you?

Mr. PURNELL. No; I do not think so.

Mr. DICKINSON. Neither do I. I do not believe they are keeping 10 per cent of them.

Mr. PURNELL. Nor do I agree with you that every time a bushel of grain is speculated in that that adds to the cost paid by the ultimate consumer.

Mr. DICKINSON. Explain to the committee where he gets his margin, then.

Mr. PURNELL. Where who gets his margin?

Mr. DICKINSON. This commission man, who deals in this commodity—the speculator?

Mr. TINCHER. Not saying anything about the profit, but just the commission.

Mr. DICKINSON. Yes; just the commission. Where does he get the commission?

Mr. PURNELL. I will ask you where he gets it?

Mr. DICKINSON. I told you where he gets it. I think it is added to the price that the consumer ultimately pays or it is deducted from the price that the producer should have received, and you can take away from that a small percentage for the lamb, who is brought in from the outside and puts his money into the pot.

Mr. RIDDICK. Then, how do you explain, Mr. Dickinson, that some grain is sold, perhaps, 13 times and some is sold 100 times, and yet the ultimate consumer pays the same price for both?

Mr. DICKINSON. The actual grain is never sold 100 times. The transaction goes through, but the actual grain is not sold 100 times; but every time a transfer is made it adds to the grand total, and either the producer's price is reduced or the consumer's price is increased.

Mr. RIDDICK. Here is the point I want to make: Here are two carloads of grain and on one the future is sold many times and on the other a few times, and yet both carloads reach the consumer at the same price.

Mr. DICKINSON. I think they both go into the general pot of price fixing and go out to the consumer at the same price, and the only way you can answer Mr. Purnell's question is by taking the general average that exists all throughout the year. One carload might be sold only 10 times and another carload might be sold 100 times, and yet they would both go into the hands of the consumer at exactly the same price. They all go into a big, boiling pot and come out with the same margin to the consumer attached to them.

Mr. RIDDICK. Broadly speaking, of course, the producer and the consumer have to pay, because there is nobody else to pay it.

Mr. DICKINSON. Absolutely.

Mr. JONES. Do you think the local buyer would have as good sources of information if you had no hedging and no future markets at all except dealing in the actual grain?

Mr. DICKINSON. I provide in this bill for the Department of Agriculture to gather the crop data, the crop estimates, and distribute them.

Mr. JONES. Distribute them thoroughly to the local dealers?

Mr. DICKINSON. Absolutely, the same as the weather reports.

Mr. JONES. One of the contentions that has been urged is that a man can give a better price to a producer if his information is good as to markets.

Mr. DICKINSON. Yes; and I do not see any reason why that is not a proper function for our Bureau of Markets. I believe it ought to be.

Mr. JONES. I agree with you as to the information being given out.

Mr. DICKINSON. Yes; in other words, it would prevent markets being stampeded by false reports. Now, I appreciate the fact that the board of trade has passed many valuable rules and has tried in many ways to get their source of information limited to the actual conditions. On the other hand, you will find letters sent out by the boards time and time again where they tell you it is a good time to buy or a good time to sell, and they will set forth a long list of facts which have to do with why they have reached that conclusion. In my judgment that is not the proper province of that marketing system. They ought not to be permitted to do it. I believe that information ought to be sent out under Government supervision, supervised by our Bureau of Markets, and that the whole country ought to be given the same information in the same way.

Mr. VOIGT. Mr. Dickinson, does your bill propose to cut out hedging altogether at the end of two years?

Mr. DICINSON. Absolutely.

Mr. VOIGT. And there would be nothing left but actual transactions.

Mr. DICKINSON. Yes; absolutely.

Mr. JONES. You would permit sales for future delivery but no hedging?

Mr. DICKINSON. Yes; I would permit sales for future delivery. All of those who support the hedging theory will tell you that if you take speculation out of the board of trade you absolutely do away with hedging; that it is the speculator that is the cushion, so to speak,

of the fellow who wants to sell his wheat at any time, and that the speculator absorbs it, and then it is finally worked through and delivered out to some actual consumer, and if you do away with speculation you do away with the hedging system.

I am not saying that they can not inaugurate a system—and I believe they can inaugurate a system—that can operate on the actual commodity instead of on a fictitious, speculative market that has no basis.

Mr. PURNELL. Mr. Dickinson, if you do away with hedging, will the small country elevator buy the product from the farmer at all times?

Mr. DICKINSON. I see no reason why he will not.

Mr. PURNELL. Suppose he is limited in his finances and limited in storage capacity, and I am a small, 40-acre farmer, with a crop that I have got to sell to meet my financial obligations.

Mr. DICKINSON. If there is not sufficient storage capacity in this country now to take care of the crop as it is offered for market—and these men know just about how many thousand bushels are going to be offered in each month of the year—within the two years that storage capacity will be built and will be ready for operation by the time this bill becomes effective.

Mr. PURNELL. That means a tremendous expense in each locality.

Mr. DICKINSON. Oh, no. These warehouses will be built in the centers where the commission men want to store their grain.

Mr. SINCLAIR. According to the data of the Grain Corporation there is practically storage for a billion-bushel crop every year already built.

Mr. DICKINSON. I wish I had the data of the Grain Corporation with reference to that. They have it figured out, and as I understand it and as substantiated by Mr. Sinclair there is practically enough now.

Mr. PURNELL. I am in sympathy with the thing you are seeking to accomplish, but, as I said yesterday, I want to protect particularly the little man who has to find a ready sale for his product. Under the present practice, as you very well know, he goes to the local elevator and says, "I want to sell you my 5,000 bushels of corn." That is perhaps all he has in the world. The elevator man buys it at a fixed price.

Mr. DICKINSON. Yes. You have that privilege——

Mr. PURNELL (continuing). But to protect himself, because the elevator man has not got the capital to carry that amount, he must have some kind of insurance.

Mr. DICKINSON. Yes.

Mr. PURNELL. And against that buy of 5,000 bushels of corn he sells a hedge and forgets the transaction.

Mr. DICKINSON. Yes.

Mr. PURNELL. He has furnished a market for the small farmer and has insured and protected himself and somebody else at some other place has taken the risk. Now, you would do away with that.

Mr. DICKINSON. Now, let me tell you something. You know that in your State and in your district, according to the data of the Federal Trade Commission, which I have here right before my eyes, only 16 per cent of the elevators use hedging at all.

Mr. PURNELL. They stated that in the hearings which we had the last time.

Mr. DICKINSON. Out in North Dakota, in Mr. Sinclair's State, 94¼ per cent use hedging. Now, I wonder why that is? Let us look at it for a moment. The elevators in his State are centrally owned elevators and centrally financed elevators, out of the cities of Minneapolis and St. Paul. They require hedging on every purchase. It is a system working out from the big marketing centers, but where you have men like you have in your own State, that are in the business on their own hook for the legitimate profit that they can make, you will find the hedging facility is not used by your grain buyers at all. If you had a summary here of all the States producing grain, you would find that less than 50 per cent of them use hedging at all. If those 50 per cent can get along without this famous insurance and protection that the hedge furnishes, will you tell me why we should have upon this grain-marketing system the stamp of being a great speculative institution, and why we can not absolutely have the other 50 per cent do business on the same basis that the man in your State does business?

Mr. TEN EYCK. Mr. Dickinson, I am, of course, in favor of some legislation that will accomplish what we are all after, but is it not a fact that practically 50 per cent of the business of the world is done on short selling?

Mr. DICKINSON. Well, in the grain business——

Mr. TEN EYCK (interposing). No; I am talking of the business of the world. A contractor who takes a contract at a certain price short sells because he agrees to deliver a certain contract at a certain price before he has bought the commodity or hired the labor. The man who manufactures underwear invariably takes a contract for a million garments before he actually owns the cotton, and the same way with the flour man who mills flour; he takes a contract for thousands of barrels of flour before he owns the grain.

Mr. DICKINSON. Do you know what he does?

Mr. TEN EYCK. Let me finish. In respect to that, is that business man protected in a legitimate way, and at the same time cut out this fellow with his puts and calls, and how do you protect the miller in this bill so that he can look after his sales before the flour is actually ground?

Mr. DICKINSON. The miller makes flour out of wheat. Out of corn he makes starch and cornmeal and other commodities. You can not find a single miller or a single milling organization who is not putting his flour out on short-time quotations. They do not contract to deliver a certain amount of flour 18 months ahead at a certain price. If you go out and want to buy so much crude oil from the Standard Oil Co. to run your railroad down in Kansas, they will agree to furnish that oil at stated quotations, twice a month or every 30 days, and in some instances longer.

Mr. TEN EYCK. Do they do that in the United States Steel Corporation in selling rails to the railroads?

Mr. DICKINSON. I have never heard; I can not tell you, but I know that this is done by large concerns that use large quantities of these different commodities where they have a standard quotation that is changed so often. There is no reason why a miller should come and

tell you that he has to buy December wheat in order to sell December flour, because he has the wheat delivered at the quotation at the time nearest the delivery.

Mr. TEN EYCK. I am trying to ascertain how he can be protected.

Mr. DICKINSON. They try to protect themselves. For instance, Mr. Murray, representing the Quaker Oats, which you probably ate this morning for breakfast, testified before this committee and I asked him:

What percentage of the time are you selling your product on the future market as stated, or on the cash market as previously stated?

Mr. MURRAY. Well, that varies with the volume of the business. At the moment, if I may cite our own particular case, we have more wheat in our mills than we have orders for flour ahead. Therefore we have March wheat sold against that surplus, and as we sell flour we buy in the March wheat. That is the situation to-day. We do that so that we may know——

I interposed:

And the selling price of the flour must cover the cash wheat plus the spread.

That means plus the spread between the cash and the future or less the spread in the future. That means that your future market is going into the price of every one of these products that you are buying—that is, where there is a future market in existence. That point is simply this, that in fixing their price for delivery to the consumer they take the cash price plus the spread between the cash and the future.

Mr. JONES. Where a commodity must be shipped a long distance to a central market, do not the local banks frequently require hedging? That is, where the local buyer has not the money and has to get it from the bank to buy grain or cotton or whatever it may be, they will not let him have the money to buy the commodity unless they can be protected from the fluctuations in the market, and they frequently require him to go and sell the same amount?

Mr. DICKINSON. That depends entirely upon the bank. For instance, in North Dakota they require hedging. Why? Because they are used to hedging. But you take out in Iowa, Indiana, and Michigan, where hedging is not prevalent, and you will find that the grain buyer buys the grain and he pays for it, and if he wants money he goes to the bank and borrows it, and when he sells the grain his check comes in to his credit and that is all.

Mr. TINCHER. You can go further than that. In a State like Kansas, for instance, the bank does not want its customer dealing on the board of trade at all.

Mr. JONES. They frequently require that in cotton shipments because it takes a long time; they frequently require cotton buyers to hedge.

Mr. DICKINSON. I think the cotton men have a much stronger future-trading organization.

Mr. JONES. I think so.

Mr. DICKINSON. Than the grain men, because there futures are prevalent in, I guess, 90 per cent of the sales, while in the grain market I think it is less than 50 per cent.

Mr. JONES. I think that is true.

Mr. TINCHER. I presented yesterday to the committee a bill on the same subject and several of the members have indicated, by in-

quiry, their desire to know the serious difference between you and myself on this proposition. As you say, we both attended the hearings very consistently at the last session. It was agreed by all parties, even the exchanges themselves, that there was an element of gambling on the grain exchanges which permitted manipulation that should be gotten rid of. We all reached that conclusion. That was the unanimous conclusion of every witness and everyone who heard the testimony. We all heard the testimony of the puts and calls and everyone agreed that they had no proper place, even on a board of trade.

The first section of my bill places a tax of 20 cents a bushel on all puts and calls, so I take it there is no disagreement between you and me on that subject.

Mr. DICKINSON. Absolutely none.

Mr. TINCHER. I have not the text of the bill, but with the fairly substantial tax on puts and calls which you make you make the dealing in them of minor importance?

Mr. DICKINSON. Yes, sir.

Mr. TINCHER. Mr. Thorne, who was very well informed on the subject, and some other witnesses advocated that, perhaps, before we destroyed the present marketing system or recommended any bill which would have such a tendency, we should have a two-year period or some such clause as you have in your bill for the proposition. There was some disagreement between the witnesses as to what we should do with what they call hedging. In section 4 of my bill I have permitted hedging without any restriction by the legitimate dealer.

Mr. DICKINSON. Yes, sir.

Mr. TINCHER. You mentioned a thing that happens in your corn district more particularly than in the wheat district, that is, the abuse of the present system by commission men and dealers buying corn and reselling it. However, two years is a long time for your corn raisers in Iowa to wait for a cure for that, and I thought this would cure it. If we make the man who sells the corn and the man who buys the corn file a written memorandum of the transaction that would be public, do you think that there would be a disposition on the part of any commission man to participate in that abuse of the trade, if it were made public?

Mr. DICKINSON. I do not think that they would abuse it.

Mr. TINCHER. You think that would cure that feature?

Mr. DICKINSON. Yes, sir.

Mr. TINCHER. If we could cure it now there would be no occasion for waiting two years for enforcing that provision of the law?

Mr. DICKINSON. No, sir.

Mr. TINCHER. Assuming that we were to pass a law at this session of Congress or within any reasonable time to do away with hedging—of course many say that that would be a bad law—do you not think that it would have a wholesome effect on the trade and prevent manipulation that we are all seeking to get rid of and have every man except the grower—I do not think that he should be required to file a written statement—men dealing in grain, buying it and selling it, make a written memorandum and have that public property, available for the use of the Secretary of Agriculture?

Mr. DICKINSON. I think it would have a very beneficial effect.

Mr. TINCHER. The opponents of my bill claim that my bill would absolutely destroy hedging because it goes too far. You are afraid that it will have a tendency to curb the trading in futures?

Mr. DICKINSON. Absolutely. In other words, in your bill, subdivision A of section 4 says that where the seller is at the time of the making of such contracts the owner of the actual physical property covered thereby, he shall not pay any tax?

Mr. TINCHER. And he should not have to make any report.

Mr. DICKINSON. The only trouble with that is that Tom, Dick, and Harry will come in and say: "Yes; we had so many bushels of grain." That is a matter of proof, as to whether they had the grain or not.

Mr. TINCHER. What you are afraid of is that they will violate the law?

Mr. DICKINSON. Yes, sir.

Mr. TINCHER. We can not pass any law but what it is liable to be violated. After hearing the testimony it was a question whether it would be better to pass a bill that would take effect in two years and try to cure all the evils or to pass a bill that would take effect now and cure the evils, at least cure them to a degree.

Mr. DICKINSON. I think it would have a tendency to cure them.

Mr. TINCHER. Then, if the public information that we would get by virtue of this bill or law would justify, then, the wiping out of the hedging entirely, we would still have a cure, we could pass a law doing away with it?

Mr. DICKINSON. Yes, sir; I am for taking any steps that will bring that result. I am for going the full distance.

Mr. CLARKE. I want to ask you, solely for information, what is your objection to hedging, so long as there is grain to show for it?

Mr. DICKINSON. I have no objection. I permit them to hedge all they want as long as they deliver under the hedging contract, but you talk with a board of trade man and he will tell you that if you force delivery under the hedging contracts there will be no hedging, that the hedging is purely a speculative transaction, which they never expect to fulfill.

Mr. CLARKE. Is not that true?

Mr. DICKINSON. Absolutely.

Mr. CLARKE. Take the instance that Mr. Purnell referred to. Supposing that I am a flour man and I want enough grain to make 25,000 barrels of flour. You are a commission man in the same town, and I come to you and tell you that I need enough grain to make 25,000 barrels of flour for December. You have not the grain, but you will contract with me and you go and hedge. Then, the transaction stops right there. Where is there any harm in that?

Mr. DICKINSON. There is no harm in that, because he expects to buy that grain and deliver it to you.

Mr. CLARKE. Absolutely. Can he hedge under your bill?

Mr. DICKINSON. Yes, sir; absolutely.

Mr. CLARKE. I did not understand so.

Mr. DICKINSON. Here is a transaction which my bill stops: For instance, here is a man living out in Mr. Tincher's town in Kansas, and there is going to be probably 10,000 bushels of wheat marketed

at his elevator. He thinks wheat is going down and he goes to some firm in Kansas City or in Illinois and he sells 10,000 bushels of wheat, expecting to buy it in to fulfill his contract. If he sells that wheat and delivers the wheat under his contract there is no tax imposed by my bill, but suppose that after he sells the 10,000 bushels of wheat he decides that he does not want to complete the contract and he cancels his hedge or buys in——

Mr. CLARKE (interposing). He is purely speculating on grain that does not exist?

Mr. DICKINSON. He is speculating on margin.

Mr. TINCHER. Right there, if he sells 10,000 bushels of wheat and only delivers 8,000 bushels, under the bill he would pay a tax of 10 cents on the 2,000 bushels?

Mr. DICKINSON. Yes, sir.

Mr. TINCHER. I am compelled to differ from you a little bit on that proposition. I do not think that man or that character of man or class of man, as shown by the evidence, has added to the manipulation of the grain market, and for that reason I hesitated to say arbitrarily that there should be a tax paid on the difference between what was legitimately sold and actually delivered.

Mr. DICKINSON. I see, but you can not make a law different for your clients in Kansas than for Armour & Co. in Chicago.

Mr. TINCHER. I did not.

Mr. DICKINSON. If Armour & Co. were to sell a million bushels or 10,000,000 bushels and deliver 9,000,000 bushels, you would not want them to be exempted from the tax on the other million.

Mr. TINCHER. I do in my bill, for the reason that Armour & Co. must make a memorandum of the purchase, and that is on file, and the board of trade must have a regulation preventing manipulation, and the board of trade, under my bill, is designated by the Secretary of Agriculture as a trading place, and if they permit violations of the law the Secretary of Agriculture has the authority to take away the designation from them, thinking that I could reach the evil. I do not think that your bill would be popular with the people. I think it would fall of its own weight, for the reason that it would take too much administration to figure out whether every man delivered every bushel of wheat he sold and whether every man received every bushel of wheat that he bought and figuring out the tax on the difference. I am afraid that would not be workable.

Mr. DICKINSON. It is certainly not a hard matter to keep a record of sales that are made for future delivery.

Mr. TINCHER. It has been very hard; we never have been able to find out. I attempt to prevent manipulation in two ways, first, by publicity, and, second, by authority in the Secretary of Agriculture to cure the abuse by taking away the designation of market place.

Mr. DICKINSON. There you get into the old theory of the Government prescribing regulations, which will almost make the Government responsible for carrying out the legitimate details of the transaction?

Mr. TINCHER. The Government of the United States is responsible for enforcing the law. Your bill, with all the bookkeeping involved, I do not believe would be popular at all with the legitimate trade; I do not think that it would be workable. Of course, you and I are striving to the same end, based on the testimony and facts which we have.

Mr. DICKINSON. Yes, sir.

Mr. TEN EYCK. I have satisfied my mind as to how Mr. Tincher's bill will take care of this situation, and I wish to ask you about your bill.

Mr. DICKINSON. Certainly.

Mr. TEN EYCK. For example, a hog grower knows that he has so many hogs and that he will need so much grain in the fall of the year for fattening purposes and it is vital for him to know what that grain will cost him when the fattening time comes. He, to a certain extent, wants to deal in future corn for actual delivery. How do you give him that privilege in your bill?

Mr. DICKINSON. He would go out and buy so much corn and would receive it and pay for it. My bill would not apply at all.

Mr. TEN EYCK. Would that cause him to invest in a storehouse?

Mr. DICKINSON. He does not have to.

Mr. TEN EYCK. To hold the corn or to pay the extra carrying charges, so to speak, in that way?

Mr. DICKINSON. He does not have to. I will tell you why. If he goes out and buys the actual corn and the corn is delivered, that is all there is to it. My bill does not apply to that transaction at all.

Mr. TEN EYCK. But as it is now he can buy corn for delivery at a future time, a certain number of months ahead?

Mr. DICKINSON. He can do that under my bill.

Mr. TEN EYCK. That is what I wanted to know.

Mr. TINCHER. Here is the point. Under my bill he can buy the corn for future delivery, and if a bad winter comes on he can still buy some more and he would not be taxed, whereas under your bill he would pay the tax?

Mr. DICKINSON. Provided he did not buy from the original producer.

Mr. TINCHER. There could not be many transactions of that kind.

Mr. VOIGT. Under your bill, Mr. Dickinson, suppose a man has 100,000 bushels of wheat near a public elevator and he sells it.

Mr. DICKINSON. Yes, sir.

Mr. VOIGT. He contracts to sell in 60 days and the elevator burns. Would he have to pay the tax?

Mr. DICKINSON. He would.

Mr. VOIGT. He would be punished for losing his grain and would have to pay a 10 per cent tax in addition?

Mr. DICKINSON. Yes, sir. He wants to carry insurance on his wheat if he does not deliver it under this bill.

Mr. VOIGT. It seems to me like a great hardship, after a man's property has been destroyed, to compel him to pay the tax.

Mr. DICKINSON. You are looking at it from the standpoint of all the people in general and not from one fellow who happens to have a fire in the elevator. In order to protect the producers and growers of grain you must consider all, and if it works a hardship on one fellow on account of a catastrophe I do not believe that it shows that the law should not be passed.

Mr. VOIGT. Supposing that hedging is cut out, what is to prevent the grain dealers of the country from placing hedges on the Montreal or Liverpool exchanges?

Mr. DICKINSON. Nothing.

Mr. VOIGT. Could not they hedge all they wanted to?

Mr. DICKINSON. Yes; but I do not believe that they would go to Montreal.

Mr. VOIGT. It would take a vast amount of business out of the country?

Mr. DICKINSON. No; I do not think it would. It would make some fellows working on margins go to work—go into some legitimate business. The actual grain dealer wants to make his margins on his actual purchases and his actual sales. I believe that the actual commission firm in Chicago is an honest fellow. I do not believe there are many of them who are manipulators. I think that the average grain dealer in Chicago is as much scared of Armour & Co. as the great producers of the country. They do not want that fellow on the board of trade, but he is there, because they can not get rid of him. I do not believe that they have the backbone to go in there and pass resolutions on this board of trade that would prevent the manipulators doing the very things which are a detriment to every commission man in the business. I gather that conclusion from the testimony I listened to here at the last session.

Now, as to the necessity of this legislation. It seems to me that the interest is acute when the State Legislature of Minnesota will take up and consider the bill, although I have not a great deal of faith in the bill they passed. I think it can be evaded. I believe that it can be gotten around in many ways. When the Legislature of the State of Illinois is now holding hearings for the purpose of passing regulations for the great board of trade in Chicago it means that there is a public interest in this matter that this committee can not afford to ignore, because they are the two States with the greatest grain centers in the United States, and both of them, in their State legislatures, are taking up this matter and considered it.

Now, they can only pass laws with reference to the actual delivery of grain within their own States. If it is a subject for them to take up, gentlemen, I believe that the sentiment behind this proposition is such that this committee can not afford to permit it to pass very long without reaching a conclusion on it, without bringing out some report that they hope will cure the evil.

Mr. KINCHELOE. The evil is the speculation in wheat and——

Mr. TINCHER (interposing). The evil in it is the manipulation.

Mr. KINCHELOE. Yes, sir.

Mr. DICKINSON. And overspeculation.

Mr. TINCHER. That results from manipulation. That is the report which has been made by the board of trade.

Mr. DICKINSON. The farmer and broker admit that they do not want manipulation, and so the purpose of this bill is to work out something that will prevent manipulation and not injure the trade.

Mr. TINCHER. Absolutely.

Mr. KINCHELOE. The case described by Mr. Voigt of a man selling his wheat and a fire coming along—that man's transaction could have no tendency at all toward manipulation and ought not to be subject to the tax.

Mr. DICKINSON. The law can be so worded as to not require the payment of a tax in a case of that kind.

Mr. TINCHER. Armour & Co. handle a great deal of wheat, and they also deal in a great many options, and the fact that it is given out

every day that Armour & Co. have bought or sold so much wheat is liable to have some effect upon the markets of the United States. If Armour & Co. were required to make a written memorandum that they bought or sold so much wheat and if that were public property it would prevent manipulation.

Mr. DICKINSON. I have not examined your bill. You ought to have some regulation by which Armour & Co. could be prevented from buying on the board of trade in case they did not fulfill their contract, in case the transaction was not a legitimate transaction.

Mr. TINCHER. I think that is covered. Here is one thing that I have not covered. It has been suggested by some good minds that there should be a limitation on the number of bushels, but I was afraid of that, and it is not in my bill.

Mr. DICKINSON. I do not think that would bring any particular result.

Mr. TINCHER. That is probably so.

Mr. DICKINSON. Just one other phase about men going to Montreal or Liverpool to do their future trading. There is only about 7 per cent of the grain of the United States that ever goes out of the United States. Under our present marketing system it is my contention that that 3 to 7 per cent that is exported has far to go to influence or fix the price of the other 93 to 97 per cent that is consumed in this country. Our system now, subject to fluctuations as it is, is admittedly in the hands of the fellow who wants to get a report from either Liverpool or Montreal or somewhere else by which he can benefit personally by the margin that he can create. In other words, the traders and manipulators for margins only ought to be eliminated from the grain business.

Before, when I introduced a bill, I made it broad and wanted to include all food commodities. In the present bill I have included only grain. I do not believe that this committee can solve more than this one question in one bill. In other words, I hope that in your bill here you will limit it to the matter of future trading and its regulation. There is grading and a dozen other marketing items here that need legislation and should have legislation, but I believe you have got a very big subject here to cover in one bill as it is, and I hope you will draw a bill carefully covering this one concise proposition; and, if there is anything in my bill, put it in, and if there is not anything in it leave it out. I want to see legislation covering this important matter.

Mr. CLARKE. Mr. Dickinson, you say that oftentimes through false reports the market is manipulated up or down. Has any thought or consideration been given to any way of legislating and fixing the authenticity of reports?

Mr. DICKINSON. I provide for the reports to be given out by the Bureau of Markets and that no other market reports shall be given out; that is, it shall be unlawful for them to give out any other market reports.

Mr. TINCHER. I have a paragraph in my bill on the subject that I think will reach it. I think the average board of trade now wants nothing to go out except reliable information, but I have a paragraph requiring such a regulation.

Mr. CLARKE. I had forgotten that.

Mr. TINCHER. It is subsection (c) on page 4.

Mr. DICKINSON. I just want to make one more suggestion, Mr. Chairman. Mr. George W. Shepherd, of the Chamber of Commerce of Milwaukee, contends that for 25 years he dealt on the board of trade where they had absolutely this provision in the city of Milwaukee. I do not have a copy of the regulations and I can not put them before this committee, but he contends that by confining the trading to the legitimate article bought and sold you will still have a wide enough market so that it will consume all grain offered, and that it will function in practically the same way it is functioning now.

I appreciate the fact that this is disputed by the members of the board of trade who are now coming before this committee, on the theory that if you limit future transactions to the actual commodity you will narrow the market to such an extent that it will be largely in the hands of the big consumers and that they will fix the price. It seems to me the question here is whether or not you want the speculator and the manipulator to control this situation or whether you want to put it in the hands of the actual producers and the consumers of the commodity.

I do not believe that the millers can afford to say to the producers of wheat, "I know you ought to have $1.10 for your wheat, but I will only give you 80 cents." The result would be that that would decrease the amount of wheat that would be raised the next year. For instance, take the sugar-beet situation. They are not trying to impose on the sugar-beet producers. They go out and make a fair and square proposition and say, "Here are a number of tons of sugar beet we can consume and here is the margin we must have to operate. Here is the price we can afford to pay you." The limitation of the market of sugar beet to the sugar manufacturer does not tend to monopolize the price. They have been very fair, and that is the way the millers and consumers of grain ought to come to the farmers and producers and say, "Here are our figures," and do away with the manipulation and speculation that has a tendency to discredit the present market system not only in the minds of the thinking people here but in the minds of the thinking people all over this country. They do not believe that the present speculative phase of the grain market is based on a sound, economic principle.

I thank you.

Mr. CLAGUE. Mr. Chairman, Mr. Potter, of Springfield, Minn., a member of our State senate, is here, and I would like for the committee to hear him. Mr. Potter is a large and prominent farmer in my district.

STATEMENT OF MR. L. E. POTTER, OF SPRINGFIELD, MINN.

Mr. THOMAS. What organization do you represent, Mr. Potter?

Mr. POTTER. I represent the State Federation Farm Bureau of Minnesota as president.

I have been very much interested in listening to the discussion here. I do not know what your previous discussions have been or anything about them, but we have been through a little sort of battle out in Minnesota along this line, and we have already passed some

legislation. As was said here by the gentleman who was speaking, we do not know about it. It may be easily evaded and of no consequence, but it is to be tried out. I want to say to this committee that the only argument brought before our legislature in our hearings by the committees, in contending for and against this legislation that we passed in Minnesota, was that "this is a national question and, therefore, keep your hands off; we do not want State legislation on this." It was the same thing not only with reference to futures or short selling, but with reference to grading and all these other phases of it. They said that it is a national question, and we are willing to have national legislation on this, but we do not want State legislation. I have always been of the opinion that if we gave them the privilege of going after national legislation, that when they went after it, they would say that Minnesota, the great grain-growing State, with the great grain markets of the country, does not want it because they turned it down.

Mr. CLARKE. Just what was your legislation up in Minnesota?

Mr. POTTER. We passed what we call an open market or a public market bill, trying to compel our board of trade and chamber of commerce to permit cooperative organizations handling their grains to have a seat on the chamber. They say, "You can come in under our regulations, but you can not come in and prorate patronage dividends." Now, how far we will go, I do not know. That is on the live-stock and grain markets. I could not go into the details of that.

Then we have passed a concurrent resolution of our legislature, house and senate, providing that we go back and use Minnesota grades on Minnesota grains—I believe I am getting this right—unless we can bring about a condition so that the Federal grades will comply with the real, necessary, requirements of our spring-wheat section. We are not going any further, because that is our function.

Then we have a short selling or gambling bill, as we call it. You have copies of those bills here.

I want to say, gentlemen, that the great contention was that this is national legislation and must not be taken up as State legislation. So I think you have got a job on your hands.

Mr. TINCHER. The people of your State appreciate the fact that they want to do away with the manipulation of the grain market by gamblers on the board of trade.

Mr. POTTER. I represent 60,000 farmers, and we sent out these different bills. There was a lot of criticism made that these bills did not, after they were amended, etc., comply exactly with the bills we sent out, and they also tried to make out that we sent out a sort of a guide or a synopsis of those bills, with our dictation of what they were, which was absolutely false. We simply sent those bills out as they were introduced in the first place covering these things, an open market, doing away with gambling or short selling, and establishing the Minnesota grades, etc., and asked for their opinion or their conclusions on those bills, without any suggestions, and we heard practically from every county where they had taken it up and discussed it, and it was practically unanimous in favor of an open market and especially against the gambling feature. There was no question or no one in opposition to passing an antigambling bill.

They were all unanimous about that. The discussions, as I say, brought out the fact that they contended the farmers did not understand it, and that these bills were manipulated and had been amended, etc., that they did not cover the subject just as the farmer expressed himself on it.

Our farm bureau federation did not say "We want this bill with all the technical phases in it." We simply said that we wanted those principles carried out, and that is what the farmer said and that is what we tried to do and that is what I would say to you gentlemen. We want this principle of gambling on farm products put out of existence.

Mr. CLAGUE. I can say to this committee that there is no man in the State of Minnesota more interested in farming than Mr. Potter, because Mr. Potter is a real farmer. I have known him for 40 years. Now, Mr. Potter, will you give us your ideas about how far you think this committee should go in the line of hedging, representing the Minnesota Farm Bureau and the actual farmers out there?

Mr. POTTER. I do not know just how far. That is a pretty ticklish question. I have been criticized only recently by one of our members in our State, who is a member, I suppose, for various reasons, and he said, "Potter, you ought to know enough about legislation, as you have been in the State senate, not to have drawn up a bill that they can get around. You should have made it an ironclad thing that would have brought this about and clinched the whole thing." I told him I was not smart enough, and I told him that the best attorneys we had in the Minnesota Legislature had been asked by us for all the information we could get, and that we could not get anything that was any better.

Mr. CLARKE. Give us your judgment about it. That is what I would like to have.

Mr. POTTER. My judgment is that no man should deal and speculate in any farm product or in the food of this Nation who does not actually handle it and use it and do something in it that renders a service toward the carrying of that product on from the producer to the consumer.

Mr. SINCLAIR. That is it exactly.

Mr. JONES. Mr. Potter, what is the name of your organization?

Mr. POTTER. I represent the Farm Bureau of the State of Minnesota.

Mr. JONES. Is that a branch of what they call the American Farm Bureau?

Mr. POTTER. Yes, sir; it is a part or the foundation of the American Farm Bureau. Our organization is an organization of each county. They have a directorate that represents that county in our State federation. Our State federation has an executive committee, of which I am the president, and then we have our representation to the national federation. The national federation and the State federation are only the representatives of these county organizations of farmers who are actually doing the work. We represent them. We do not dictate and run them.

Mr. TINCHER. You have a national organization?

Mr. POTTER. Yes. I have been a delegate and was there when the national organization was formed. I have been a delegate to all of these conventions.

Mr. TINCHER. Mr. Howard, of Iowa, and Gray Silver——

Mr. POTTER (interposing). Gray Silver is only an employee, you might say, of the national organization, representing or looking after its business here in Washington.

Mr. TINCHER. The National Farm Bureau was instrumental in organizing what is known as the committee of 17?

Mr. POTTER. Yes, sir. The National Farm Bureau called a meeting of all the different grain-marketing organizations of our country. I was a delegate at that convention, and they, in convention, unanimously requested Mr. Howard to appoint a committee of 17 to take up the grain-marketing problem.

Mr. TINCHER. And they employed the very best counsel they could hire and went at it in a systematic way, did they not?

Mr. POTTER. That is what we expected them to do, and I think that is what they did do.

Mr. TINCHER. We had the representatives of that organization here. Mr. Thorne gave very extended testimony, and I put it in the record yesterday as a part of the hearings on this bill.

Mr. POTTER. Out in Minnesota we sent a representative down here a week ago—Mr. Anderson, of our State—to try to formulate with representatives, I think, from 40 other States an agricultural program that would be a real business program—that is, to bring about the right relations between the producers and the consumers and the rest of humanity. We want something concrete, something definite. Our State did the same thing. We had our State agricultural program. We turned that over to our legislature. Our legislature thought some of it needed legislation—not all of it, because there were other things needed besides legislation. They enacted that into legislation to the best of their ability, I believe, and I think they did a pretty good job. They enacted all that we asked for, as far as legislation went, adopting the farmers' program.

Mr. TINCHER. There is some merit in the proposition that the control or the doing away with gambling in food products is of national importance and is a national proposition, is there not?

Mr. POTTER. There is no question about it. We all believe it is a national problem, but I did not know how we were ever going to get it through as a national problem and get legislation on it when our Minnesota people would come down here and say that Minnesota did not want it; that they had tried it and turned it down.

Mr. TINCHER. I think you are right about that.

Mr. POTTER. And that was an argument against it.

Mr. TINCHER. There is not any sentiment in the organization of which you are a member, as I understand you, except that it has a depressing effect and a bad effect upon the producer of food products to have the price of such products controlled by gambling manipulations, and they all want to get away from that, if they can, and have a law against it?

Mr. POTTER. That is what we want. We do not want any man to play with this thing who does not do a service in getting it from the producer to the consumer.

Mr. CLARKE. Have you made a study of these two bills here?

Mr. POTTER. Not these two bills, no; I have not.

Mr. RIDDICK. Has your Minnesota legislation become effective yet?

Mr. POTTER. No; our antigambling law does not take effect until the 1st of July.

Mr. RIDDICK. Are your farmers out there pleased with that legislation?

Mr. POTTER. I have not heard any criticism of it except that maybe we did not go far enough.

Mr. RIDDICK. Are the grain buyers and milling interests opposed to your legislation?

Mr. POTTER. When we had the hearings the grain buyers, that is, the elevator companies, some of them, sent in representatives, and it was a pitiable sight to see some of our fellows coming in representing the farmers' elevators and trying to tell their story, when even the best men they had on the chamber of commerce could not keep them prompted. It was like a school boy speaking his first piece. There was a statement made here this morning about North Dakota and Minnesota, to some extent, that the elevators in the country buying this grain are being financed, especially in this financial crisis, by the board of trade or the chamber of commerce or other interests out there. There is no question about that. There are some interesting things to be said along that line. I have been interested in this kind of work as a farmer. I have lived in Brown County, Mr. Clague, for 52 years, pretty nearly ever since anybody has lived there. I was the president of one of the first cooperative elevators in that county. I helped to organize it and was president of it for 15 years. We had a good mill to compete with and several line elevators, right from the start. That was something like 17 or 18 years ago that that started. We had all of this competition. We never were financed by a commission firm. We always got our finances from our local bank and we never sold a bushel of futures, and we made a success, in competition with a real, active mill, that was bucking us, and three other line elevators, and still going.

Mr. CLARKE. Did Mr. Barnes appear before your committee before this bill was passed.

Mr. POTTER. I do not know whether he appeared before a committee because it was not really a hearing. They had a banquet and invited in some fellows. I was not there but we had some other fellows there, and I know he made a talk on it but I could not go into the detail of that.

Now, gentlemen, I am not an expert. As Mr. Clague has said, I am a farmer. I do not want and our organization, gentlemen, does not want you to give the farmers something for nothing. They do not want you to give the farmer any privilege that would be to the detriment of the rest of humanity as a whole. All we want is a square deal, and the aim of our organization is to put agriculture on a basis where both socially and financially it will be considered just as worthy as any other occupation. We want it brought about so that a man who is an agricultural man—and this is the point I want to make—who is actually doing the work that nobody else wants to do, which is the most essential work on earth, shall be recognized, at least, as a business man and as a man who is entitled to recognition and a man who will be rendered pay for the service he performs. Nobody else wants to do this work. It is not so bad after you get used to it. I told some gentlemen just recently that it is fun to be a

farmer and it is nice to be a farmer when you do not have to be one; when you get to the stage when you can play it as a game.

The farmer only wants a square deal. He has got his job and it is a part of our mission as a farm bureau organization to standardize our products and bring it about so that we will put it on a better and more economical basis, and put our products on the market in better condition. We have a lot of problems to take up other than simply the marketing problem.

Cooperation in Minnesota is one of the leading things, and Minnesota is one of the leading States in cooperation, but, gentlemen, practically all of our cooperation for years has been assembling our stuff and putting it on the other fellow's market where we have had nothing to say.

Mr. FAIRBAIR. And now you want to put it on your own market.

Mr. POTTER. We are willing to put it on his market if he will make it function so that we will get a square deal, and if he will show us that, we are willing to market it, but he has not shown us that yet, and every time the farmer has tried to bring about any legislation or bring about any condition where he can get a square deal—and I was amused here when some gentlemen said that they were afraid the farmer would hurt his own business. That is not new.

They are so solicitous that I have had conferences at their request with some of the leading men in Minneapolis and all over that country since the first of January and even before that, and the big effort they have put forth was to convince me, representing my organization, that we were going to cut our own throats.

Now, gentlemen, the farmers of the Northwest are not satisfied with present marketing conditions, and that is one thing that has practically driven us toward radicalism. We are dissatisfied and it is our condition that is making us dissatisfied. You have got to realize those conditions and give the producers of this country reason to believe that they are going to be recognized and that they will have something to say about this problem, which is more their problem than anybody else's.

Mr. TINCHER. If they cut their throats now they would not get much blood, would they? There never was a worse depression in this line than there is right now.

Mr. POTTER. A man who is pretty well posted, from Iowa, told me yesterday morning that in his opinion, and I think he is right, if the rentors, and there are lots of them in the Northwest, had to liquidate and pay off their paper—and I know because just last Friday I spent all the afternoon in a bank looking over this kind of material. I am a farmer that they are using in the bank to give it a little stability. [Laughter.]

Mr. RIDDICK. Are the farmers in Minnesota planting as much now as usual?

Mr. POTTER. Yes, sir; practically so. They are doing everything they can with the equipment they have, but they are not buying new equipment and going into extravagance in that way.

Mr. RIDDICK. They are not discouraged by the present situation and restricting their planting?

Mr. POTTER. No, sir; we are trying it once more, in fact, we have to; what else could we do? What we have got to do, gentlemen, is to get confidence back to the farmer that there is a future or else he will

quit. Gentlemen, suppose we do hurt our own market. We are raising the grain and they have not showed me where they have cheapened these products to the consumer. If we are going to bring about legislation that is going to cripple and hurt our markets, and ultimately ruin the farmer, he can not be much worse off, and as a stockman I know that if you want to learn a calf to drink just give him plenty of rope some time and he will choke himself for a while and be decent afterwards. Maybe they could work it with us better in that way, by letting us have our own way for a little while, and if we get a worse deal, maybe we will be satisfied and will stay at home and hoe.

The CHAIRMAN. We thank you very much, Mr. Potter, for your statement.

Mr. CLAGUE. Mr. Chairman, Mr. Bendixen, chairman of the agricultural committee of the State of Minnesota, is here. Mr. Bendixen is known as the tonnage-tax man, being the man who put over the tonnage tax on the iron mines. I would like to hear Mr. Bendixen and I know you would. Mr. Bendixen is one of the largest grain growers in my country and is a resident of my State.

STATEMENT OF MR. C. M. BENDIXEN, OF MORGAN, MINN.

Mr. BENDIXEN. Mr. Chairman and gentlemen, this discussion this morning is very familiar to me because as a member of the Minnesota House of Representatives I have heard a good deal of this kind of discussion during our late session, and of course I have been very much interested in listening to the various features being brought out here relative to this so-called antifuture legislation.

I can hardly add anything to what Senator Potter has said here relative to this matter. As he has stated, what we have to contend with to a large extent was that we had a large market in the State of Minnesota, in the city of Minneapolis and also in the city of Duluth, and of course the argument was brought forth that it would be against our own interest to destroy our own markets because we would simply remove the market from Minneapolis to Chicago and Kansas City and other places where they have this kind of a market.

As to the general opinion and disposition of the farmers of the Northwest, there is no question but what they desire legislation along this line. Of course, we do not desire to destroy the present system of marketing entirely, but we do believe that this so-called gambling or dealing in futures has been extended in such a way that it is detrimental to the grain producers of the Northwest.

As Representative Dickinson brought out here, the profits all of those engaged in these transactions are making—and they must make a profit or they would not be in the business—must come out of somebody, either out of the producer or out of the consumer, and if they are not rendering a necessary service to society we think they ought to be eliminated, because we believe that it is the duty of everyone to render some useful service to society; and, as I say, if they are not doing that—and we believe they are not, or at least a large number of them—we believe they ought to be eliminated and as Senator Potter said go to work at something else that will render a useful service to society.

Mr. BENDIXEN. There was a point that was brought up here to which I desire to call attention, that was about the financing of the

country elevators when they bought comparatively large amounts of grain, and it was stated that if an elevator bought 10,000 bushels of wheat the banks would not finance them, help them to carry that wheat, unless they would hedge. As I understand this measure which you are considering it does not prevent sales for future delivery. If an elevator has in its possession, say, 10,000 bushels of wheat, they can sell that for future delivery. If an elevator man believes that the price will raise and believes that it is to his interest to keep that wheat for some time, or any other kind of grain, whatever it may be, and if he sells it for future delivery at some future time he will have no difficulty in being financed, because he is assured of that price at which he sells it, to be delivered, and consequently there would be no risk in financing him. So I do not believe there is any serious difficulty along that line. As I said before, I believe there is a strong public sentiment in favor of legislation along this line.

Mr. KINCHELOE. Do you believe in the elimination of hedging altogether; do you think that it would be better for the farmer?

Mr. BENDIXEN. It depends on what you mean by hedging. Now, I consider that selling for future delivery is hedging in a way. If I have 5,000 bushels of grain and I feel that the market will not justify my selling it at the present time I can sell it at any time I wish; at least within a reasonable time, to be delivered in the future. That is hedging as I look at it.

Mr. KINCHELOE. Take the example that I stated to Mr. Dickinson a while ago. Suppose I am a miller and want enough wheat to make 10,000 barrels of flour. You are a commission merchant in my town and I come to you and say, "I want enough grain to make 10,000 barrels of flour by the 1st of December."

Mr. BENDIXEN. Yes, sir.

Mr. KINCHELOE. Do you think that you should be prohibited from protecting yourself after selling me the grain?

Mr. BENDIXEN. I could make a contract with the miller to deliver the wheat if I had it in my possession.

Mr. KINCHELOE. Suppose you did not have it in your possession, do you think that you should be forbidden by law of Congress to go and contract with me and hedge that contract?

Mr. TINCHER. By buying wheat?

Mr. KINCHELOE. By buying wheat from somebody else for future delivery.

Mr. BENDIXEN. If I have that amount of wheat in my possession that I sold to the miller I do not believe that there would be any reason for preventing me from buying from somebody else a like amount of wheat in order to protect myself, as the market might fluctuate in the meantime; no; I do not think so.

Mr. KINCHELOE. You do not think that should be prohibited?

Mr. BENDIXEN. No; I do not think so; if I had the wheat in my possession that I sold.

Mr. VOIGT. His question contemplates a case where you have not the wheat in your possession.

Mr. BENDIXEN. Where I have not the wheat in my possession?

Mr. KINCHELOE. I come to you and say, "I want this wheat the 1st of December," you have it not at all; you are a commission man, legitimately in business, a citizen of my own town. You have not the

wheat, but in order to accommodate me and at the same time make some money for yourself you say, "I will furnish the wheat in December," and you go and hedge that contract with me by buying the wheat from somebody else. The point I want to know, absolutely for information, is whether or not you think that character of contract should be prohibited by Congress.

Mr. BENDIXEN. Well, if there was no actual wheat involved, I think it should be prohibited.

Mr. KINCHELOE. You would not have the wheat at the time, but I expect the wheat to be delivered to me in December. I am buying it in good faith. I want the wheat to make 10,000 barrels of flour. I come to you, as a commission man, and you say: "I have not got it," but you are on a contract to deliver it the 1st of December. Do you think that you should be prohibited from hedging and buying the wheat for delivery in December?

Mr. BENDIXEN. Why should a miller go to a man that did not have any wheat in his possession?

Mr. RIDDICK. You have not the wheat, but you come to me and buy it. That is not gambling if you expect to get the wheat and pass it along to the miller. There is nothing wrong.

Mr. BENDIXEN. No; if I knew where I could buy it and intended to buy it in order to deliver it to the miller.

Mr. KINCHELOE. I make the contract in good faith and you make the contract in good faith.

Mr. SINCLAIR. The miller usually buys from samples. He does not buy on contract. He buys sample wheat when he wants to grind it in his mill.

Mr. BENDIXEN. That is probably true, at least in a good many cases.

Mr. TINCHER. I think there would be a good many transactions.

Mr. TEN EYCK. Perhaps, I can clear that situation. What the question means is this: That he contracts with another man for him to gather the wheat together for delivery. Before the man has been able to get the actual wheat he wants to know whether that agent, who has made the contract with the miller, has the right to hedge in the meantime until he can get his wheat together for delivery?

Mr. BENDIXEN. I think so.

Mr. KINCHELOE. For actual delivery?

Mr. BENDIXEN. He made a deal with the miller in good faith to deliver that wheat at a certain time, not knowing just exactly what price he would have to pay, and I think it would be just, fair, and proper.

Mr. CLARKE. How would your bill affect it?

Mr. TINCHER. It would not affect it. Wherever the actual delivery of wheat is contemplated I would not be in favor of taxing it.

Mr. KINCHELOE. I have asked all my questions with the idea of deciding between the several bills before us just which one will give the farmers the best results. I asked that question purely with the idea of protecting the miller and at the same time to see if I could get my wheat to make the flour.

Mr. BENDIXEN. Oh, I think that would be a perfectly legitimate transaction.

Mr. CLARKE. Is there anything which would prevent that transaction?

Mr. TINCHER. No. There is nothing which would prevent that transaction, only in this respect, they must absolutely show the actual delivery of every bushel or pay a tax on it. My bill would not affect that transaction at all. It would simply require a report of the transaction, that is all. It would be a proposition for the Department of Agriculture to find out if such a transaction was made which would prevent that miller from saying to a representative of Great Britain, "While I am buying this wheat to make 20,000 barrels of flour for myself, I will buy a couple of million bushels of wheat for you."

Mr. KINCHELOE. Then it becomes a speculation.

Mr. BENDIXEN. If I understood Mr. Dickinson aright, suppose that this miller bought, say, 20,000 bushels of wheat to be delivered at a certain future time, and suppose there was only a part of that delivery made, the tax would attach under Mr. Dickinson's bill?

Mr. TINCHER. I think not.

Mr. BENDIXEN. Suppose a man buys 100,000 bushels of wheat and there was only 10,000 bushels delivered on that contract?

Mr. TINCHER. That would be published under my proposition and the Secretary of Agriculture would have that report. He would know the board of trade that was doing that kind of business and could decide. To illustrate, suppose that Mr. Kincheloe's mill burns down, and he does not want the wheat, it should not be delivered, he should have the right to arrange that and there should not be any tax on that transaction?

Mr. BENDIXEN. Oh, no; not in that particular case, if you can frame a law that will protect individual cases; that is a pretty hard proposition.

Mr. SINCLAIR. In that case, as I understand from you, you then by hedging would protect yourself and the board of trade for the same amount, and then you would go out and buy that grain?

Mr. BENDIXEN. Yes, sir.

Mr. SINCLAIR. You would still have the hedge out. You deliver the actual grain to Mr. Kincheloe, but you have a purchase on the board of trade, and you have to close that sale sometime. If you do not tax it, how are you going to prevent a man making a half a dozen of those sales?

Mr. BENDIXEN. On the same contract?

Mr. SINCLAIR. Yes, sir.

Mr. KINCHELOE. He is gambling then.

Mr. SINCLAIR. That is pure speculation.

Mr. BENDIXEN. I do not believe that he should be allowed to hedge any more than the actual amount that he has sold.

Mr. SINCLAIR. By limiting it to one hedge?

Mr. BENDIXEN. Yes, sir; and that hedge should be closed when he delivers the grain.

Mr. TINCHER. That transaction under my bill would be reported. If you bought so many bushels of wheat from him he would report that he had sold so many bushels, and if he went on the board of trade and bought he would have to report that, and he would have to report that he had delivered the grain to you. That would be public property here for the department which has the power to designate the marketing places.

Mr. SINCLAIR. Under your bill there is no tax on that kind of hedging, but under Mr. Dickinson's bill there is a 10 per cent tax.

Mr. KINCHELOE. The Secretary under that authority could put him out of business.

Mr. TINCHER. He would not do that at all under my bill.

Mr. BENDIXEN. That is all the information I have to give you, gentlemen.

The CHAIRMAN. We are much obliged to you Mr. Bendixen.

Mr. VOIGT. Mr. Tincher, under your bill, suppose a large amount of manipulation was going on at Chicago and Minneapolis, and millions of bushels of wheat were sold short, that would not become public property unless the Secretary of Agriculture saw fit to give the information to the public, would it?

Mr. TINCHER. No; I do not think that he would be obligated to publish the transactions, but it would enable the Government to stop that kind of business by taking away their designation as a trading place. I may be misinformed, but the grain men tell me that if that is the law there will be never any violation of it, that no board of trade would take a chance.

Mr. VOIGT. Should not your bill go further? Should it not provide that the Secretary of Agriculture shall be obliged to publish the figures and let the people know how much trading there is in grain on a given exchange?

Mr. TINCHER. I do not think that I should oppose that kind of an amendment. There have been several good amendments suggested. That might be a good suggestion.

Mr. VOIGT. If he simply stated that so many bushels were sold, which was nothing unusual, the farmers of the country would not know about it, but if he were every week or every month to publish the figures showing the amount of grain dealt in on a given exchange the public would be informed?

Mr. TINCHER. That might be a good proposition, the publicity of those records.

Mr. VOIGT. All the information.

Mr. TINCHER. Yes, sir.

The CHAIRMAN. Who is the next witness, Mr. Tincher?

Mr. TINCHER. I will call on Mr. Strong of Kansas.

The CHAIRMAN. We shall be very glad to hear Mr. Strong.

STATEMENT OF HON. JAMES G. STRONG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS.

Mr. STRONG. Gentlemen of the committee, the district that I have the honor to represent is the north central district of Kansas, one of the best agricultural districts in that great agricultural State, and representing those people I come before you to urge the passage of a bill that will stop gambling in the staple foodstuffs of the Nation. I know that the men who are dealing upon the boards of trade do not like to be called gamblers; they do not like to be designated in that way. If you call them traders or speculators they feel a little different about it. I remember very well, a few years ago, when, as a prosecuting officer, I convicted five boys for gambling in a box car, shooting craps. They had $17 in all. I asked the court to give them the minimum fine and I was criticized very seriously by some of the church people of my community for asking that they be given the smallest fine possible under the law. The next day I went to Kansas City and called upon the son of a

former partner of my father's in the grain business, who was a member of the board of trade. At his office I was directed to the floor of the "Wheat Pit." There I saw him running up and down, his coat, vest, collar, and necktie off, shaking his fingers at first one man and then another. After five or ten minutes the bell rang. They congratulated him. He came over and got his clothes from the man who had them and put his arm around me and said, "Come to the office." We went. I said, "You were evidently very successful to-day." He said, "Yes; I have made a good many thousands. Jim, it makes me sick to think how your father and mine worked ten or twelve hours a day buying grain from the farmers for a profit of two or three cents a bushel, when it is so easy to make money in this way." Then, I had no regrets that I had asked the court to fine those negro boys the minimum under the law.

It is gambling, pure and simple, in the foodstuffs of the Nation. You can not make anything else out of it. It is a national crime that we are legalizing, and we are afraid to attack it because men come in and say that there would be no market. We did have a market during the war without gambling. So it is not necessary for men to speculate in futures upon the boards of trade.

For more than 25 years my father engaged in buying and selling grain, commencing in the '70s at Dwight, Ill. He was for years upon the board of trade buying and selling grain and buying from the farmers. He was for 14 years in Kansas in the grain and milling business. He has told me repeatedly that the curse of the grain business was the speculation in futures on the board of trade. We used to buy grain from the farmers. We did not hedge. We had bids from men who expected to ship the grain to their customers and on those bids we bought grain and sold it within a week. The hedging proposition has become very prevalent as the years have gone by until the farmers of the country realize that it is a curse to their industry. Last summer they had a fair price for their wheat. The United States Grain Corporation went out of existence. Gambling was resumed and what was the result? In 60 days they took a dollar off of every bushel of wheat. The farmers in Kansas are banding themselves into an organization to stop this kind of business, and they are going to stop it. The farmers' union of my State have gone down into their pockets and raised money and built elevators in the State of Kansas. They are now talking of putting up storage-houses, and they are talking of putting up an immense mill. For what purpose? To market their grain in a different channel. The organizations of farmers that Mr. Tincher has spoken of are trying to find a different channel in which to market their grain. Why? Because they think that the gambling in their foodstuffs is a curse to their business. They propose a system of pooling their grain; selling it to their organization; putting it in the hands of their own organization to market a certain amount of this grain when needed by the country, holding it back from the market until the people want it, and selling it in a pool. You are going to meet that kind of a situation if you do not act. If you do not stop gambling in the foodstuffs of the Nation. The time was when it was thought that we had to have slaves and intelligent and educated men spent their time arguing that it was a necessity, yet we wiped it out. We used to have the Louisiana lottery in this country and men argued that it

was a good thing, yet we wiped it out. We had the saloon in this country and men argued that we had to have it, bright men, educated men, who said that we needed the taxes, that it was a business you should not destroy and throw men out of employment, yet it was done away with.

I hope, gentlemen, that this committee will report out a bill and that this Congress will pass a law to stop gambling in this country—gambling in food staples—legalized gambling. The farmers of the country are asking that this thing be done. They are the people whose interests are at stake. They are willing to try it. The men who are not producing are the men engaged in this gambling business. They are here with their sharp, shrewd, lobbyists to tell you that you will destroy the farmers' market. Why not take the farmers at their word and try it? The people will get the benefit. The boards of trade will continue and the honest brokers who are selling food products will go to the elevators and buy them just the same.

I think it is time to take a forward step in this country and stamp out this evil before you have the farmers through their organizations restricting their acreage, or pooling their grain and holding it back from the market. They are entitled to have their product marketed without having gambling in futures affecting the price.

I hope this committee will report some bill of this kind. I do not know which bill is the better one, but it seems to me if you can do that which would interrupt the present system the least suddenly it might be the best. In behalf of the agricultural people of Kansas, a good, clean, citizenship, I should like to see such a measure reported out of this committee.

I thank you.

The CHAIRMAN. We are very much obliged to you, Mr. Strong. Is there anyone else, Mr. Tincher?

Mr. TINCHER. I do not think of any else now, Mr. Chairman. I should like to hear Mr. Atkeson.

The CHAIRMAN. Is Mr. Atkeson in the room? [After a pause.] Did he request to be heard?

Mr. TINCHER. I want to hear him. That is, he did not request to be heard and I intend to put his testimony in my statement, but I thought he would be here. I would like to have Mr. Atkeson and Col. Chantland here Friday morning.

The CHAIRMAN. And the representatives of the Department of Agriculture?

Mr. TINCHER. Yes, sir. I had hoped that when we got all through the hearings that we might have the Secretary of Agriculture himself tell the committee what he thinks about the proposition.

The CHAIRMAN. Very well.

Mr. TINCHER. There is a bill on the floor in which a good many members of the committee are interested and I will not ask anybody to be here this afternoon.

The CHAIRMAN. Is there anyone present who desires to be heard in favor of the bill? [After a pause.] If not, without objection, the committee will stand in recess until 10 o'clock to-morrow morning.

(Thereupon, the committee adjourned to meet to-morrow, Wednesday, April 27, 1921, at 10 o'clock, a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Wednesday, April 27, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

There were present: Mr. Haugen, Mr. McLaughlin of Michigan, Mr. Purnell, Mr. Voigt, Mr. McLaughlin of Nebraska, Mr. Riddick, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Clague, Mr. Aswell, Mr. Kincheloe, Mr. Jones, and Mr. Ten Eyck.

The CHAIRMAN. Mr. Wells, are you ready to go on this morning?

Mr. WELLS. Yes, Mr. Haugen; we have our representatives here.

STATEMENT OF MR. F. B. WELLS, OF F. H. PEAVEY & CO., MINNEAPOLIS, MINN.

Mr. WELLS. Mr. Chairman and gentlemen of the committee, for the purpose of making it clear to the committee just what my interest in the proposed legislation is I will state that I am a grain merchant and a warehouseman. I am not interested in my commission business dealing either in cash grain or futures. None of the companies in which I am interested engage in speculative business either for themselves or for outsiders. So you will see that my entire interest in the proposed legislation and in this marketing proposition is that of a hedger, a buyer of cash grain and a hedger of such grain until the grain is needed for consumption or for export.

In studying the bills carefully, which are before your committee for consideration and which affect vitally the future trading or hedging markets, I am impressed with the fact that two or three fundamental principles underlying the hedging system have not been brought home to you with sufficient clearness or, at least, they are not embodied in the proposed legislation.

H. R. 261, the so-called Haugen bill, would, in my judgment, eliminate future trading as furnishing a hedging market, through the rigid limits which it imposes on open, speculative lines, and because of the fact that it necessitates the physical delivery of the property covered by the contract.

H. R. 168, the so-called Dickinson bill, which it is proposed would become operative two years after passage, would, in my judgment, absolutely eliminate the hedging market because of the enforced physical delivery on all contracts.

H. R. 2363, the so-called Tincher bill, embodies a great many constructive ideas, and with certain modifications to make it practical in

its operation and to preserve the hedging markets, would, in my judgment, prove constructive legislation.

There is, however, a fundamental point in this bill which, as at present drafted, would terminate hedging operations, and if the chair will permit, I would like to point out a few of the underlying principles with respect to hedging markets which have been overlooked in the drafting of this bill.

It was assumed at the close of the January hearings by those of the grain trade who were present that the value of hedging markets was conceded, and that it was admitted that through the insurance against loss owing to decline in values the farmer as well as the consumer was benefited, but it strikes me that in the framing of the legislation now before you—and I will refer specifically to Mr. Tincher's bill as being the most constructive—you have overlooked the requirements for a hedging market.

I was a little surprised when Mr. Tincher day before yesterday made the statement that he made no pretense that his bill "furnished insurance to every man engaged in the business except the farmer, and that he did not think it was a good argument against a measure or against any system to say that we have a system of gambling by which every man in the business connected with grain, except the fellow who produces, is guaranteed, at the expense of the man who produces it, against any loss."

I do not think there was any intentional misrepresentation in that statement, but, as a matter of fact, the man who is insured the maximum price obtainable for his product is the farmer, and the consumer is also insured the minimum price for grain products through this system of insurance which has grown up.

If I may, particularly for the benefit of those members of the committee who did not attend the last hearing, I would like to point out briefly the advantages of the hedging markets.

To my mind the greatest advantage of the hedging market is that it eliminates entirely price interest on the part of the purchaser of grain, and, again, on the part of the seller of grain products. Ordinarily a merchant buys as cheaply as he can and sells as dearly as he can. Under the existing system of buying and selling grain it is immaterial to me, for instance, as a grain merchant whether I pay $1 or $5 a bushel for the grain which the farmer delivers to me, because of the fact that I make my purchase and protect myself by a sale at identically the same instant, at least theoretically. In the case of the miller it is immaterial to the miller whether he buys his grain at $1 a bushel or $5 a bushel, because when he makes a flour sale he makes a purchase of a future which insures him against an advance in the price of grain pending the time when the contracts for future delivery of flour become due. Consequently the miller is working on a manufacturing margin, and the question of merchandising the raw material does not enter into his calculation at all. This accrues to the benefit of the consumer of flour as well as to the producer of wheat.

The second great advantage, to my mind, in the hedging market is the reduction of the trade toll or the gross margin of profit exacted by the buyer of grain from the producer.

It hardly needs demonstration to point out that if at the time I purchase grain I can protect myself against any possible decline in

the market by making a sale for future delivery, I can afford to operate on a much narrower margin than if it were necessary for me to include in my margin a protection against possible decline in the market.

For some years past there have been a series of investigations going on (I think the first exhaustive one was in 1898) directed to the development of the conditions surrounding the marketing of farm products.

In 1898 the so-called industrial commission, headed by Senator Kyle, of South Dakota, who was an ardent Populist, as you remember, and incidentally greatly opposed to the then existing system of handling grain, made an exhaustive study of the marketing system of this country as applied to farm products. It is a rather peculiar thing the way the history repeats itself, and, with your permission, I would like to read a brief extract from the letter which accompanied this report when it was submitted to Congress in 1901. They say:

> The depression in prices of agricultural products during the few years previous to 1898 has been, no doubt, responsible for most of the opposition to speculation in futures. The several interests connected with the raising and marketing of these products feel that something is wrong, and in search for the cause of the evil naturally turn against speculation as the most prominent factor in modern business life. That the condemnation of speculation is the result of misunderstanding and bitter feeling rather than intelligent research can be seen from the fact that it is frequently made on conflicting grounds, according to the interest involved. It is not many years ago since a large and representative meeting of western American farmers adopted a resolution against options, which was the term then used for futures, on the score that they tended to unfairly reduce the price of wheat, and it was just three weeks after that meeting that the convention of the National Association of American Millers, attended by some 500 members, was held in Minneapolis and passed a resolution condemning options or futures on the ground that they unfairly raised the price of wheat.

Now, the same situation exists to-day. When all is said and done the only measure of the efficiency of a marketing system is the percentage of the terminal price which is received by the producer, and Senator Kyle's commission found, as other commissions have found since repeatedly, that under the existing market system the producer receives a larger percentage of the terminal rice on his grain than on any other product of the farm.

There is another very valuable function which is fulfilled by the hedging markets, and that is the dissemination of price information. With these great terminal markets functioning every day in the year, as they do, there goes throughout this country a record of quotations and of prices which reaches every corner of the country. So that there is hardly a producer of grain who does not know, in a general way, the terminal value of grain, and knowing the freight rate from the originating point, his country station, to the terminal market, he can judge within very narrow limits as to what his grain is worth. It is true that at times the question of premiums for certain varieties of grain enters into the market situation, but in a general way, the producer of this country is protected by the widespread dissemination of price information.

The hedging markets, in addition to the functions which I have mentioned, afford the most effective means of crop distribution. To explain that I will say, for instance, suppose we have a short crop of wheat in the Northwest, a very short crop of wheat; our market through the operation of the law of supply and demand becomes

relatively higher than other markets and commands a premium over its normal position with regard to other markets, and as a result the flow of wheat is directed to the point of scarcity.

We had an opportunity during the operation of the Grain Corporation to see how wasteful is any artificial means of distribution. We saw in the Northwest, for instance, based upon crop estimates, a large volume of spring wheat moved out for export over the Lakes, and we saw later on, owing to the fact that the crop was overestimated, a large amount of wheat brought from the northern Pacific coast to fill the shortage created by faulty distribution. Under the natural laws of distribution that condition has never existed. The price has attracted the grain where the grain was needed, and consequently the distribution has been scientific and economical.

There is another and a very important function in connection with the operation of the hedging markets and that is the ease with which the grain business is financed. We in the Northwest, perhaps, appreciate that to a greater extent than do the grain trade in any other portion of the country.

In the last 10 years there has been a steady increase in the relation of the number of independent farmers and cooperative elevators to the total number of what we call commercial line elevators; otherwise, elevators owned by corporations and operated from one of the terminal markets. There has been no increase in the number of commercial line elevators. The increase is all, particularly in later years, in cooperative elevators.

Under the existing system of hedging, which is price insurance—I will call it that—and which eliminates the risk of a decline in the market, it has been possible for people of very small capital to engage in the grain business. It has been possible for these cooperative societies and farmers' elevators; with practically no capital, no working capital at least, to borrow funds to the extent of 30 or 40 or 50 thousand dollars at a single country station for the purpose of moving crops.

To show you that that condition has a direct bearing on hedging, I would call your attention to the fact that in the States where that financing has been the most general the percentage of hedging is the most general. Now, you may take that one way or the other. You may say that the percentage of hedging is the most general because the men who lend the money demand the hedging, or you may say the dealers having adopted the hedging method are able to finance themselves. Be that as it may, the situation is this: In North Dakota 94 per cent of the country elevators hedge their purchases in futures. In Montana, 90 per cent; in Minnesota, 75 per cent; and in South Dakota, 71 per cent. The smaller percentage of elevators using the hedge in Minnesota and South Dakota is due to the fact that in Minnesota and South Dakota a larger percentage of the grain is barley, oats, and other grains which are not hedged as commonly by the country trade as is wheat.

The elimination of price insurance would, in my judgment, inevitably tend to concentrate in the hands of large dealers the grain business of this country.

When I say large dealers, I do not want to be understood as indicating that I consider the cooperative movement outside of the

grain trade. I do not. I believe in the cooperative movement. I believe that it is going to make a success, but I do believe it will have to come up from small beginnings and develop gradually rather than attempt to handle the entire grain crop of the country instantaneously; and I believe that the interests of those who are devoting their time to cooperative marketing of grain are identical with those of any other grain merchants.

Now, as against the hedging markets, I think the chief argument that has been made is that under the existing system the farmer receives a low price in the fall when the pressure is on the market and that the grain dealer or the miller harvests a handsome profit later on when the heavy crop movement is over.

Perhaps, to an outsider, that is an entirely reasonable supposition; but if you will take the trouble to go into the figures, the actual figures, of the values in the fall of the year and the spring of the year, you will find that quite a different condition exists. I would call your attention in this connection to the testimony offered by Mr. Julius Barnes, on page 850, of the record of the hearings before this committee in January. In order to demonstrate the fallacy of the contention that the price was lower in the fall than in the spring, Mr. Barnes has compiled from figures, I understand, obtained from the Bureau of Markets, a summary of the situation between the years 1910 and 1916. He presupposes that the crop which is marketed in the first six months of the year is all held by the dealer during those six months; the dealer accumulates that stock, there is no sale made of it; and that beginning with January, he shows the effect. if all of that stock were sold during any one of those months at the prices which prevailed in January, February, March, and April, what the result would have been, whether the dealer would have secured a profit or whether he would have sustained a loss; and the figures are interesting, even if theoretical.

If that percentage of the crop (and it is 75 per cent) which moves from the farmer's hands during the first six months of the year had been held by the dealer up until January 1 and had been marketed at the price obtainable in January, during those years the dealer would have sustained a loss of $52,000,000. If the dealer had held that accumulation until February and marketed it, the loss would have been $100,000,000. In March he would have sustained a loss of $112,000,000, in April a loss of $118,000,000, in May $160,000,000, and in June $186,000,000. It would seem that these figures would satisfactorily dispose of the contention.

Mr. TEN EYCK. What year was that?

Mr. WELLS. From 1910 to 1916, inclusive.

Mr. JONES. And that is the average?

Mr. WELLS. That is the average during those months. That is the average cost during the first six months of the crop year and the average selling price obtainable during the last six months in that period. It would seem that these figures would satisfactorily dispose of the contention that the farmer who markets his crop in the fall sustains a loss which might be avoided if he carried it until later in the year; at least, the prevailing market prices in the fall have not shown a sufficient discount under the prices prevailing in the spring to pay for the cost of insurance, interest, and storage involved in carrying the grain.

I was not quite satisfied with those figures, because they are too general, and I wanted to come down to a market with which I was entirely familiar, so I requested the Bureau of Markets to compile for me a statement showing the average price of No. 1 northern spring wheat, which is our standard wheat in the Northwest, during the months of September, October, and November, and during the months of April, May, and June in the same crop year.

For the crop year 1909–10, the average terminal value of No. 1 northern wheat during the months of September, October, and November was $1.03. The average price for the same grade of wheat during April, May, and June was $1.10. That shows a 7-cent carrying charge, out of which interest, insurance, and storage must come, and that would leave a nominal profit.

Mr. KINCHELOE. Let me interrupt you there, if I may. What is the average cost per bushel?

Mr. WELLS. The average cost of carrying?

Mr. KINCHELOE. Yes.

Mr. WELLS. Storage is one-thirtieth of a cent a day. If you were going to pay storage, put it in a terminal elevator and pay storage, the cost would be one-thirtieth of a cent a day or 1 cent a month. Interest and insurance, we will say, on $1 wheat would be 8 cents a year or two-thirds of a cent a month, and we will call the period four months, making it the shortest period you can take, and that would be about 6⅔ cents for interest, insurance, and storage up to the 1st of April.

Mr. KINCHELOE. Per bushel.

Mr. WELLS. Yes; and the difference in price was 7 cents which would leave one-third profit.

Mr. MCLAUGHLIN of Nebraska. Mr. Wells, you have the average there for April, May, and June; do you have the price for the month of June separate?

Mr. WELLS. The average price for June, 1910, was $1.09. The average price for April, May, and June was $1.106.

Mr. MCLAUGHLIN of Nebraska. Do you have the figures for July?

Mr. WELLS. No; I have not the July figures.

Mr. TINCHER. How do you account for your figures showing a nominal increase and the Barnes estimated figures showing such a loss?

Mr. WELLS. It is a different proposition, Mr. Tincher. Mr. Barnes presupposes that you buy the 75 per cent of the crop that moves in the first six months and hold it. I do not. I compare three months in the spring and fall. It is a different computation.

Mr. KINCHELOE. You take one grade?

Mr. WELLS. Yes, sir.

Mr. MCLAUGHLIN of Nebraska. You have stated the average for the three fall months, September, October, and November. Do you have the figures for November?

Mr. WELLS. Yes, sir; $1.06.

For the crop year 1910–11 the average value of No. 1 northern wheat in the Minneapolis market for September, October, and November was $1.07. The average value of the same grade of wheat during the months of April, May, and June was $0.973. In other words, there would have been a loss of 10 cents a bushel, plus the

cost of carrying, if the farmer had carried it through the three months of April, May, and June.

Mr. KINCHELOE. Do you have any other grade of wheat except No. 1?

Mr. WELLS. That is the standard grade in the Northwest.

Mr. KINCHELOE. Do you think that is a fair proposition to the others?

Mr. WELLS. It would be in our case as in the case of No. 2 northern and No. 3 northern the discount would vary to a very trifling degree only.

The CHAIRMAN. The item of shrinkage should also be included in the carrying charges?

Mr. WELLS. I am not including that. I am trying to make it as liberal as possible.

The CHAIRMAN. What is your estimate as to the shrinkage?

Mr. WELLS. I would not put that in, because it varies so with different crops. If the grain is wet you have a material shrinkage and if the grain is bone-dry there is very little shrinkage. In corn it would be different; you have loss from rotting and from rats and vermin, but I think with the wheat you can let it go without any shrinkage.

In the crop year 1911–12 the average value of No. 1 northern wheat in the Minneapolis market during the months of September, October, and November was $1.08, and the average value of the same grade of wheat during the months of April, May, and June was $1.13, which shows a premium of 5 cents a bushel for the spring months, which would almost cover the cost of carrying but leave no profit, a small loss in fact.

In the crop year of 1912–13 the average value of No. 1 northern wheat in the Minneapolis market during the months of September, October, and November was 87.6 cents and the average value of the same grade of wheat during the months of April, May, and June was 90.3 cents. There is a premium of 2.7 cents, which would cover less than one-half of the cost of carrying.

In the crop year of 1913–14 the average value of No. 1 northern wheat in the Minneapolis market during the months of September, October, and November was 85.3 cents and during the months of April, May, and June was 92.3 cents, a difference of 7 cents, which would allow a nominal profit after paying interest, insurance, and storage.

These figures are of value as determining whether or not it is true that under the existing system the farmer receives less in the fall for his grain than he should and the dealer or the miller profits because of the fact that the farmer is obliged to sell. I think that these figures dispose conclusively of that contention.

(The following table was submitted by Mr. Wells:)

Wheat: No. 1 northern spring—average price per bushel of reported sales at Minneapolis.

1909:		1910:	
September	$1.00	September	$1.09
October	1.04	October	1.08
November	1.06	November	1.04
Average of 3 prices	1.033	Average of 3 prices	1.07

1911:	
September	$1.09
October	1.10
November	1.05
Average of 3 prices	1.08
1912:	
September	.89
October	.90
November	.84
Average of 3 prices	.876
1913:	
September	.87
October	.84
November	.85
Average of 3 prices	.853
1910:	
April	1.11
May	1.12
June	1.09
Average of 3 prices	1.106
1911:	
April	$0.96
May	.99
June	.97
Average of 3 prices	.973
1912:	
April	1.10
May	1.16
June	1.13
Average of 3 prices	1.13
1913:	
April	.88
May	.91
June	.92
Average of 3 prices	.903
1914:	
April	.91
May	.94
June	.92
Average of 3 prices	.923

Mr. KINCHELOE. Is it your contention from your figures that the people who carried this wheat lost, that the speculators in wheat lost during that time as shown in the various years?

Mr. WELLS. Yes, sir; the speculators who carried the wheat.

Mr. KINCHELOE. The speculator lost more in that number of years than he profited?

Mr. WELLS. I think the speculator always foots the bill; that is, nine times out of ten, at least.

Mr. KINCHELOE. If he loses more than he makes, how does he stay in the business?

Mr. WELLS. They come and go; they do not stay.

Mr. PURNELL. Do you think that that same percentage would apply over a period of years?

Mr. WELLS. These figures cover three years. I asked for five years. I wanted to have the official figures, but the Bureau of Markets did not have time to go back. I know it does apply.

Mr. PURNELL. The period you have cited there might be termed an unusual period by those who take the opposite view. I was wondering if, in your judgment, that same percentage would apply over any particular period of normal years?

Mr. WELLS. I have had figures compiled that show practically the same results over 10 or 15 years. There was nothing abnormal that occurred in 1910–11, 1911–12, and 1912–13. When you come to 1913–14, then the war is introduced. Even that condition did not enhance the value in the spring. In the spring we did not profit any. Those three years are normal years.

There has been a misunderstanding before this committee in the past and it might well arise in the minds of the new members, if the hedging system has been of such benefit in the Northwest, why is it that in the Southwest and in the Central States the grain dealers who have appeared here stated that they did not use the hedge? That statement is correct, as far as it goes. They do not use the hedge directly; they sell their grain on the basis of a card bid; but the man who makes that bid uses the hedge and it is only because

he can protect himself against loss on his purchases that he is enabled to make the bid.

Mr. PURNELL. Permit me to ask you right there, who makes the card bid?

Mr. WELLS. The card bid is made either by a manufacturer of cereal products, a mill, a corn products company, or by a commission house whose business it is to buy grain and distribute it, but the bid in every instance is predicated upon the ability of the bidder to protect his purchase by hedging. That is the point I want to make. While the practice seems different, it is only a question of the hedge being one step further removed from the man who actually buys the grain in the country. There is a very good reason why in the Northwest our country merchants use the hedge. In the Northwest practically every carload of wheat is sold on sample, and every car of wheat, to all intents and purposes, brings a price based upon its milling value. Consequently it would be an impossibility, without seeing a sample of each car, to submit a bid. The result is that in the Northwest the practice is this, that the country elevator dealer buys grain and sells a future against it in the Minneapolis market. In the Minneapolis market the grain is sold on its intrinsic merit, milling merit. There is a very wide difference in the value of wheat for milling purposes. When he has sold the car of wheat he buys back the hedge. That closes the transaction. He has had the protection of the hedge during the time he was unable to market the cash grain. That is the practice in the Northwest. The reason, as I have said, that so large a percentage of the country elevators hedge their purchases is that their grain is all sold on sample, whereas in the Central and Southwestern States a very large percentage of the grain is sold merely on grade.

Mr. KINCHELOE. As far as I am concerned my mind is still open on this hedging proposition.

Mr. WELLS. Yes, sir.

Mr. KINCHELOE. Is it a fact that the farmers' organizations, unions, and others in the Northwest that you know of are against this hedging proposition?

Mr. WELLS. I can only say this: They are against manipulation and so are all the men that I know in the grain business. They want the hedging market. They have an idea that the hedging market can exist without any speculation. On that point I differ from them, but as far as the desire to use the hedging market is concerned, that extends to all classes of dealers, independent—that is, individual operators—farmers' elevator companies, and cooperative elevator companies, they all use the hedge in our section of the country for the reason I have explained.

Mr. KINCHELOE. I am talking about legitimate hedging, making contracts in good faith—the point I want to know, and I am only asking for information, is whether the farmers' organizations are in favor of doing away with hedging entirely or reducing it to a legitimate basis?

Mr. WELLS. If I read properly their publicity, they are not in favor of doing away with the hedging, and the Committee of Seventeen in its study of the market system, which has been exhaustive, reached, I think, the conclusion that they wished to use the present market system until such time as the volume of the cash grain which

they handle makes speculation impossible, because there will be no basis for speculation. I think they stated that in connection with their plan which they put out. They submitted a questionnaire with answers, and in submitting their plan this is what they state:

How will the new plan eliminate speculation in grain if the sales association operates on the present grain exchanges?

That is the question.

The answer is:

One great advantage of the committee's plan is that it can be put in operation almost at once, without waiting to get any large percentage of the grain of the country under contract. The easiest way to start will be to get into the present grain exchanges, where cash buyers are in the habit of coming, and meet them there. The Farmers' Sales Association will at first have no particular influence over the rules and conduct of these markets. If farmers back their organization, however, it will not be long before the Farmers' Association will handle a large enough volume of grain to become a dominating factor on the market. The Farmers' Association will sell only to cash buyers. It will not speculate, and will not sell grain to speculators. As soon as a large enough volume of grain is going through the Farmers' Association, the hazards of purely speculative trading will be so greatly increased that there will be no joy in it any more. It is quite likely that in time the grain exchanges will become cash markets only, with most of the grain handled by the Farmers' Association and with speculative trade eliminated entirely.

I think that is a perfectly logical statement, the proposition to use the existing machinery and let this cooperative movement grow until it handles sufficient cash grain so as to eliminate the necessity for speculation.

Mr. KINCHELOE. That is by the process of elimination?

Mr. WELLS. Yes, sir; I think it is perfectly legitimate.

To go now from the advantages of the hedging market, I do not know whether I have given you any assurance of its advantages or not, but I have tried to bring before you the fundamental points, as I see them, by which the hedging market accrues to the benefit of the producer as well as the consumer.

I want to say that I think Mr. Tincher is mistaken when he says that the farmer pays for the insurance. As a matter of fact, the farmer is the insured because of the fact that were it not for that insurance the farmer would have to pay the premium, the premium being an increased margin exacted by the grain dealer for his protection.

If we concede, for the sake of argument, the public necessity of a hedging market, let us consider the next point: What is necessary for a hedging market? I state without any qualification that a broad liquid market is necessary if you are going to have hedging. You must admit one thing, and bear it in mind all the time in considering this probelm that the movement of grain is seasonal and the demand for grain is periodical.

Mr. TINCHER. Why say that? Do they not trade 365 days in the year?

Mr. WELLS. Yes, sir; but 75 per cent of the grain that moves in six months is not consumed except in a cycle of 12 months.

Mr. TINCHER. The movement is periodical?

Mr. WELLS. Of course, the movement is seasonal, it moves at certain seasons of the year, and the demand for the grain is periodical. It does not come at the same time as the movement from the farm, a certain proportion comes all the time, but not enough to absorb the offerings.

Mr. TEN EYCK. There is a constant movement from the farms, but is not the large movement at certain times?

Mr. WELLS. That is it. It may eventually be accomplished, but it will take time.

Mr. KINCHELOE. Seasonal and periodical, are they not synonymous terms?

Mr. WELLS. No. The movement of the spring wheat is in September, October, November, and December, in four months we market 75 per cent of the crop, and the winter wheat moves in July, August, September, and October, and that supply lasts until the following July.

Mr. JONES. The demand is regular?

Mr. WELLS. The demand is not even during the year. In the fall we have an accumulation on the market. Then, the market must be broad enough so that any hedging operations involving the individual commercial handling of grain can take place without unduly affecting value or price.

In that case, I should like to call your attention to some of the units which are used in ordinary commercial transactions. For instance, during the season of open navigation we sell from the Northwest cargoes of wheat for lake shipment. A cargo of wheat 20 years ago used to mean 50,000 or 75,000 bushels and to-day it means 250,000 or 300,000 bushels. The units have increased tremendously in size and a market would be of little or no value if it did not afford the opportunity to either buy or sell the equivalent of the ordinary unit without affecting value.

I recur again to the Northwest, because I am a northwestern man and I am familiar with the situation, but I should like to call your attention to what actually transpires in the movement of grain, the movement as compared with the demand, by citing the conditions in the northwestern markets during the fall months. Our movement of wheat starts in September, not very heavy. October, November, and December are the heavy months of movement. Now, if we have only in the grain market the buyers who would be classified as grain dealers or millers and their requirements are not, as a matter of fact, sufficient to absorb the offerings during that period, one of two things is inevitable—either the risk of ownership of that temporary surplus stock of grain must be borne by the producer or it must be borne by a class of traders who are willing to assume the risk for the hope of gain. The grain merchant and the miller can not absorb a sufficient volume of the surplus offerings to take care of this heavy movement.

Mr. TINCHER. Who pays for the wheat, the legitimate dealer, producer, and miller?

Mr. WELLS. Ultimately the wheat is all paid for by the legitimate dealer or the miller. Temporarily the risk may be assumed by another class of traders, but that is insurance, pure and simple; they are underwriting that risk and they are doing it not for a fixed premium, but they are doing it with a hope of gain.

Mr. TINCHER. Who pays for it, either the miller or the producer?

Mr. WELLS. The miller and producer are not carrying the risk of decline in price of the wheat.

Mr. TINCHER. Who is carrying it?

Mr. WELLS. The speculator. If you will permit me, I should like to develop the necessity for this class of traders.

During the fall months of September, October, and November each year we have the heavy movement. There are in the territory tributary to my home—Minneapolis—5,600 country elevators. Assuming that only three-fourths of these elevators handle wheat in volume, we have 4,200 country elevators, each of which during the months in question would purchase on the average not less than 500 bushels of wheat per day; I am putting that low. Those figures are from the 128 houses with which I operate and other houses in the same country; that makes total purchases in those houses of 2,100,000 bushels daily. Based upon the Federal Trade report on hedging, it is safe to estimate that 75 per cent of this wheat would be hedged in futures. You have to hedge that, because you could never move that wheat rapidly enough to a terminal market. For a period of five years the receipts of cash wheat in Minneapolis per day during the months of September, October, and November have averaged 470 cars. Our milling requirements are only from 300 to 350 cars, and, incidentally, a part of that is supplied by wheat from the Southwest, which is brought up to Minneapolis to grind. That leaves from 120 to 170 cars a day of cash wheat over and above the consumptive demands of the market in addition to the 1,500,000 bushels of hedge that come on the market, and there must be a buyer for these offerings. The terminal elevator man can not be considered as a buyer, because the moment he buys the surplus spot offerings he becomes a seller for a like amount as a hedge against his purchase. Consequently you have 120 to 170 cars a day of cash wheat over the consumptive requirements at that market in addition to the hedging sales. In other words, that wheat must be temporarily carried by some other class of traders than the grain miller or grain merchant, and if the speculator is eliminated from the market——

Mr. PURNELL (interposing). Pardon me a moment. I think you are at the point, as far as I am concerned. This man that you refer to as the speculator, let me ask, in order that we may know, who he is; he does not ever anticipate the actual purchase or delivery of any grain?

Mr. WELLS. No. The man who anticipates the delivery of grain or purchases the grain for future contract is the grain dealer or miller.

Mr. TEN EYCK. You say that the miller becomes the seller as soon as he purchases wheat for the future?

Mr. WELLS. No; I said the terminal elevator operator.

Mr. TEN EYCK. The miller is the future seller of flour?

Mr. WELLS. He is a buyer of cash wheat and a future——

Mr. TEN EYCK (interposing). A seller of future flour is he not?

Mr. WELLS. He sells flour for deferred delivery and buys grain futures against the flour sales, or if his flour is for immediate delivery he buys cash wheat against the sale of flour.

Mr. TEN EYCK. He actually takes the wheat out of the market, as far as the miller is concerned?

Mr. WELLS. The miller sells in September flour for delivery in March. He buys December wheat. He does not take the delivery in December wheat, because milling to-day is a very highly scientific business. There is a great variety of wheat, and the miller has a certain standard to keep up. When the flour is deliverable he accumulates wheat of different varieties which will make the mixture required, and as he purchases cash wheat he sells out the future which he bought against his flour sales.

Mr. TEN EYCK. We have heard a great deal in relation to the man who sustains the loss during this speculation, which, from all the testimony, has been the speculator. No one can lose without somebody gaining. I should like to have you tell us who the fellow is that profits by this.

Mr. WELLS. I can only tell you what I surmise from what I know of the speculative business. One set of men buy an opinion on a basis which they are willing to invest in wheat and another set of men believe that wheat is too high and they sell it. It is simply an exchange between the two sets of men of varying opinions.

Mr. TEN EYCK. Not the farmers?

Mr. WELLS. No, sir.

Mr. TEN EYCK. Or the grain dealers?

Mr. WELLS. One set of underwriters, speculators, wins, and the other loses; they simply change back and forth.

Mr. PURNELL. How does the producer profit?

Mr. WELLS. Because of the fact that this insurance is possible.

Mr. TEN EYCK. Only from an insurance standpoint?

Mr. WELLS. Yes, sir.

Mr. TEN EYCK. But from an actual monetary standpoint he does not profit?

Mr. WELLS. Where the risk on any business can be insured it can be done on a narrow margin.

Mr. WILLIAMS. Does not that amount to this, that a stable grain market rests on gambling in futures?

Mr. WELLS. No. I do not say that it rests on gambling. I say that a broad liquid market requires the presence of traders other than those interested in the grain and milling business. You can call them "investors," "gamblers," "speculators," whatever you wish, as long as it means the same class of people it makes no difference.

Mr. WILLIAMS. Grain speculators?

Mr. WELLS. I will say, without qualification, that I am not opposed to competent speculators. I do not think it is necessary for any market to have incompetent speculators.

To come back to the Minneapolis situation, we have this surplus of offerings and we have a demand from the grain dealers and from the millers which is not sufficient to absorb the offerings. What are you going to do?

Mr. PURNELL. That is the 170 cars?

Mr. WELLS. The 1,500,000 bushels of wheat hedged on purchases in the country. That is the situation which exists in our State every fall of the year. There are 1,600,000 bushels of wheat to be absorbed every day, outside of what the mills require. Who will absorb it? One of two things is absolutely necessary, gentlemen. Either the farmer must carry it or you must admit another class of traders who are willing to assume that risk of property ownership for the sake of possible gain. There is no other way around it. It does not make any difference, the surplus has to be carried by someone, and if it is your wish that the producer carry the crop and that this class of traders be eliminated, then, I think you should pass a straight antifuture bill.

Mr. TEN EYCK. Does not the farmer assume the position of regulating the flow of grain rather than to speculate in it?

Mr. WELLS. He is in exactly the same position that I would be in if I controlled the stock of wheat in the United States and I should hold it and only let it come out as necessary to maintain a price satisfactory to me.

Mr. TINCHER. Do you think that it would be right to prevent the farmer from holding his grain and disposing of it as he saw fit?

Mr. WELLS. No, sir.

Mr. TINCHER. Do you think that it would be right to prevent the miller from buying his entire year's supply of grain at any time that he might decide it was proper for him to buy it?

Mr. WELLS. No, sir.

Mr. TINCHER. Do you think that would prevent a legitimate dealer in grain, between the miller and the farmer, from buying grain from the farmer and holding it for the purpose of selling it to the miller for consumption at such time as he might think proper?

Mr. WELLS. I do not.

Mr. TINCHER. Is not that exactly what my bill permits?

Mr. WELLS. Your bill permits that, Mr. Tincher; but it does not take into account the fundamental fact that a surplus of grain has to be carried for many months before it goes into consumption.

Mr. TINCHER. I give the legitimate dealers in grain the option of carrying it in my bill, do I not?

Mr. WELLS. Yes.

Mr. TINCHER. Do you believe this:

While I believe that speculation is absolutely necessary for the existence of a satisfactory hedging market, I am strongly opposed to manipulative speculation and would gladly see it eliminated from the markets if it were possible without destroying the entire machinery.

Mr. WELLS. I am very strongly of that opinion.

Mr. TINCHER. Do you say now that my bill destroys the entire machinery of the markets?

Mr. WELLS. I say that your bill, in my judgment, would destroy the hedging market, because it eliminates a class of buyers and sellers who have been proven necessary in order to absorb surplus offerings at a time when they were in excess of current requirements and to supply current requirements when offerings were not available.

Mr. TINCHER. Mr. Hutchinson, who was a former member of this committee, at the hearings before pleased the opponents of this proposed legislation by saying that he was in the milling business and not in a producing section and wanted to buy his wheat for future delivery. There is nothing in my bill to prevent him from doing that.

Mr. WELLS. No.

Mr. TINCHER. And nothing to prevent the farmer from selling it to him for future delivery or to a dealer who in turn could sell it to him for future delivery, but while that transaction is going on, after Mr. Hutchinson pays for the wheat and the farmer has sold his wheat, and some intermediate dealer owns it, you think that in order to stabilize the market there must be somebody trading in it an innumerable number of times.

Mr. WELLS. I think in order to do business on the present narrow margin it must be possible at any time to effect a transaction, either a purchase or a sale, without disturbing materially the current range of values, and that will not be possible if only certain classes

of people can buy or sell grain through exchanges or otherwise for future delivery because of the fact, Mr. Tincher, when you come right down to it, somebody has got to carry this surplus. Now, it can not be carried by the miller and it can not be carried by the merchants, and if they are not——

Mr. TINCHER (interposing). My bill does not prevent any man from buying grain.

Mr. WELLS. For future delivery.

Mr. TINCHER. No; it does not prevent any one from going into the business. It is not class legislation.

Mr. WELLS. It does not prevent any one from going into the business but it restricts to certain classes who are either owners of the article covered by the contract or engaged in growing, dealing in, or manufacturing grain or grain products.

Mr. TINCHER. It prevents manipulative speculation for purely gambling purposes or purely for manipulating purposes. That is what I intended to do, and I got part of the idea in drafting the bill from the testimony of the distinguished gentleman whose testimony I was reading from in formulating my questions.

Mr. WELLS. I hold to that very firmly.

Mr. TINCHER. You said at that time:

The trade practice demonstrates very clearly that the volume of future trading in any market bears but little relation to the receipts of grain in that market.

Mr. WELLS. And I would like to explain that, too. That was one of the points, I think, that I did not get over. I did not explain exactly what that means. If I may, can you just wait a moment Mr. Tincher, so that I may cover just one or two more points.

Mr. TINCHER. I beg your pardon. I did not mean to interrupt you.

Mr. WELLS. I do not know whether I have made clear the necessity for a breadth of market. I think I have shown you, under existing conditions, where 75 per cent of the wheat crop is marketed in six months. Until there is some change in the marketing conditions in this country it is necessary to have a class of buyers who are not in the grain or milling business.

Mr. JONES. Under present conditions then, is it your judgment that in order for the legitimate dealer to have a place to hedge there must be permitted in that place, the speculative buyer.

Mr. WELLS. Exactly; or seller.

Mr. TINCHER. Who never acts except as——

Mr. WELLS (interposing). As an underwriter.

Mr. TINCHER. Who never acts except under the influence of the man who is eventually going to consume either as a miller or exporter.

Mr. WELLS. He acts purely as an underwriter.

It seems peculiar that you should pick out the grain business and say that we must not have speculation in it. I would like to see some business where there is no speculation.

Mr. ASWELL. What about wool and rice?

Mr. WELLS. I was just going to take up wool and rice. What happens where there is no speculator in the market and where there is a surplus of the commodity. You find the situation that exists to-day in the wool market, in the rice market, and in California in the walnut and raisin market. Surplus stocks are carried and they can not be disposed of. There is no one who has come in and said, "I

think rice is low, and I will buy 1,000 bags of rice." I do not know how rice is sold because I do not know what the unit is; but there is no one to take that risk. There is no one to say "I will take on so many thousand pounds of wool." The Department of Agriculture told me last week that 80 per cent of the wool of the farmers was in a pool, and what happened was this: The wool dealers or the wool merchants in the business had sent their salesmen out and disposed of their stock of wool, while the producers who own this stock in the pool were sitting there waiting for an opportunity to dispose of it. You may say that is because of the importations of wool. Possibly that is so. I do not know the wool business. I only know there is no speculative trade in wool. The rice situation is not due to importations, but the rice grower is in that situation and there is no way to distribute that load of hazard. The risk of ownership has got to be borne by somebody. In the grain business it is spread over the entire country. In these other businesses, where there is no future market, it has to be borne by the producer of the rice or the wool or the raisins or the walnuts, or whatever commodity it may be.

You have seen a lot in the papers in the last six months about repudiation of contracts and cancellation of contracts and the decline in business morals. I defy you to show anywhere in this country, in spite of the tremendous shrinkage in grain values—which, by the way, has not been as great as in some other staple commodities——

Mr. ASWELL (interposing). Not half as much as rice.

Mr. WELLS. There has not been a single repudiation of a contract that I know of anywhere, and I think that speaks rather well for the morale of the business and for its high standards.

Mr. TINCHER. There are two sides to that proposition. There is not an overproduction of wheat.

Mr. WELLS. Not of wheat.

Mr. TINCHER. There is not any other food commodity so generally used, perhaps, in the world as bread.

Mr. WELLS. No.

Mr. TINCHER. Now, you have cited here for the benefit of this record the averages which you figured on. Those averages do not contemplate or do not show the fluctuations. They just show the general average.

Mr. WELLS. Yes; they show the general average.

Mr. TINCHER. After they quit threshing wheat, along in October, the supply of wheat for the year is practically known and the demand for breadstuffs for the year is practically known to the trade, is it not?

Mr. WELLS. In October; no.

Mr. TINCHER. Well, in November.

Mr. WELLS. No; the Argentine, which is one of the most important factors, is not known until December, really.

Mr. TINCHER. Well, we will say December then. My congressional district is going to produce, they say, this year 75,000,000 bushels of wheat. Here is an evil that exists. A 10-cent a bushel fluctuation in that wheat cost the people who produced that wheat some money, and it is not uncommon, under the present system, to have a 10-cent fluctuation in wheat, so that on one Monday it is worth 10 cents more than it is worth the next Monday, and by the following Monday it is back to that 10 cents.

Mr. ASWELL. Was not fluctuation as great during the war, when they had no market?

Mr. TINCHER. Oh, no. Of course, they will say that that was not a fair proposition, because we had the Grain Corporation, which controlled it. But it is not the law of supply and demand that makes that fluctuation, which costs the producers of the wheat a lot of money, and no one has ever shown where it ever gives the consumer of bread the advantage of that 10 cents a bushel on wheat. That is caused, I claim, not by the miller who is buying wheat to grind or not by the consumer, but simply by this man who has got up from 2 to 4 cents a bushel on the product gambling in it. Now, when you were here before, you wanted to eliminate this gambling.

Mr. WELLS. No; I wanted to eliminate manipulation, and I still want to do that. I do not call it gambling. I call it speculation. I still want to eliminate manipulative speculation; that is, where large money interests can go into a market and temporarily affect the trend of values one way or the other, up or down.

Mr. TINCHER. Such as I have just cited, of 10 cents from one Monday morning to another.

Mr. WELLS. That is an entirely abnormal condition, Mr. Tincher.

Mr. TINCHER. Well, the abnormalcy of it dates from the day last August when the gambling in wheat futures was resumed.

Mr. WELLS. That was a coincidence.

Mr. TINCHER. Which is probably the most notable era of fluctuation in the history of our country. Do you think they ought to have resumed——

Mr. WELLS. May I call your attention to the fact that a year ago in February—February, 1920—the grain trade was called to Washington to a hearing on a bill introduced by Senator Gronna, the purpose of which was to abolish the Grain Corporation because of the fact that during the months of December, January, and February the fluctuations in cash wheat had been so wild that he thought it was time for the Government to go out of the grain business and for the markets to function as they had in the prewar period?

One of the great troubles to-day is not speculation but lack of speculation. There has been a psychological effect in the minds of all buyers of all commodities, due to the talk beginning a year or two ago, that prices must go lower, that everything was too high, that we must get back to the prewar basis, approximately, and the result is it has been very difficult to find speculative buyers in the markets, and that is the reason why our markets have functioned so unsatisfactorily—that reason, together with the fact that there has been no supply of grain in commercial channels.

The futures markets in wheat can not function unless there is a supply of wheat in commercial channels. We never have had in our visible supply this year wheat which was destined to remain there for any length of time. There has been a demand that has taken the wheat out of the country right along.

You referred in your statement day before yesterday to the fact that there never was a more satisfactory condition, you assumed, than that which existed after the termination of the activities of the Grain Corporation's functions and the resuming of future trading. I will admit that from the standpoint of the owner of grain that

was a very satisfactory period because of the fact that for some unknown reason the British Government came in during those months, May, June, and July, and bought an unprecedented amount of wheat for future shipment, which kept the markets on a very high level and shortly after the resumption of future trading, their requirements having been satisfied, they dropped out of the market.

Mr. TINCHER. The British Government did not have a board to go upon?

Mr. WELLS. They bought cash wheat.

Mr. TINCHER. They did not have a place to go and depress the market before they purchased the wheat at that time?

Mr. WELLS. No.

Mr. TINCHER. And Mr. Gates, as I recall it, and I do not want to misquote him, so I will say that the leading grain men of the country or of the world admitted in the other hearings that under the present system it was possible for the British buyers to go on the board of trade and manipulate the market. They said they would not do it, they thought, under the present system; is not that right?

Mr. WELLS. I think that statement was made in the previous hearings.

Mr. TINCHER. But it was not possible at that time to do it because we were not dealing in grain futures in the United States.

Mr. WELLS. Yes.

Mr. TINCHER. And that was probably the most satisfactory era for the owners of wheat we have had in the United States since we have had a market.

Mr. WELLS. That was an unprecedented period lasting for some three months and was due to the abnormal demand which, when satisfied, left our market infinitely worse off than if they had gone at it in an orderly way and bought their grain as they required it.

Mr. TINCHER. That is one way of answering it and the other is that upon the resumption of gambling in grain futures we had the most unprecedented era and the most unsatisfactory condition that ever existed in the United States.

Mr. WELLS. That was common to all commodities that enter into human requirements. The decline in wheat has been no greater than the decline in any other commodity you might mention. Take any of the food products, potatoes, rice, beans, canned goods, and then we turn to clothing, and we find the situation the same with reference to wool. The situation is the same in everything, Mr. Tincher, and it is very unfair to judge a marketing system by conditions which have existed since last July. Go back to the prewar conditions and analyze it just as far as you please.

Mr. TINCHER. All right; you spoke of a Populist who came here and introduced a measure and conducted an investigation. Now, go back to prewar times. Charlie Scott, of Kansas, who was a former chairman of this committee, introduced a bill to regulate the gambling in grain futures, and the conditions were such at that time that he could have passed that measure. He was unwilling and his friends in Congress were unwilling to take the responsibility of passing a measure that would absolutely abolish the so-called hedge, but he had a measure that he thought would cure the proposition. Then the exchanges came to Washington and they pursuaded Mr. Scott, if he

would not press the legislation, as I understand it, that they would adopt such rules and regulations in the exchanges as would cure the evil, and the evil at that time was the same as it is to-day, the manipulation of the market on food products. Now, you are a well-informed man on this subject, and you will admit that this evil exists.

Mr. WELLS. I admit that it might exist.

Mr. TINCHER. I wish before you finish your testimony, if the committee will give you the time, you would put into this record a definite, concise way of eliminating this evil from the business.

Mr. WELLS. The evil of manipulation?

Mr. TINCHER. Yes, sir.

Mr. KINCHELOE. You spoke a while ago of the fluctuation of 10 cents a bushel in the price of wheat in a week's time as being a coincidence. Now, what was the cause of that coincidence?

Mr. WELLS. Absolutely abnormal conditions; the failure of buyer and seller to meet, there being no buyer when there was a seller in case of a drop in prices or no seller when there was a buyer in case of a rise in prices. The narrowness of the market was the cause of that condition.

Mr. KINCHELOE. Could not these gamblers prevent them from meeting at any time?

Mr. WELLS. Under normal conditions the flow of trade approximately balances. There are as many people who think the market is going to advance as there are who think it is going to decline, and it works along on about the same level with minor fluctuations.

Now, this same proposition came up, as Mr. Tincher says, back in 1898, and what did the Industrial Commission—Senator Kyle's commission—finally decide on this point:

> Under speculation, while fluctuations of prices are more frequent they do not reach such wide extremes as they used to. That is another beneficent result of the wider dissemination of knowledge of conditions brought about by speculation as well as other influences working in that direction which we can not discuss here.

I am speaking now as a user of the facilities, and I am not saying they are ideal. I am not saying they could not be remedied. I am saying that a great deal that you propose in your bill is very much to the point and very constructive, but I do say that unless a class of traders, other than those engaged in the grain and milling business, are allowed to trade, you will narrow the markets to such an extent that they will lose their value as hedging markets.

Mr. JONES. Mr. Wells, do you think you can define a manipulator in such a way as to distinguish him from the speculator, who simply speculates on the market and does not try to manipulate the market?

Mr. WELLS. I do not know that you can define a manipulator, but I do think, as Mr. Tincher has done, with some qualifications, you can place a penalty for permitting manipulation on the exchanges on which that manipulation is attempted.

Mr. JONES. Could you suggest a proviso to his bill that would clearly protect the hedging market and leave the bill in such shape as to exclude the manipulator?

Mr. WELLS. If you will permit me to cover two other points that are basic points, then I would like to talk about Mr. Tincher's bill, in a general way, so far as I know about it.

I think the opinion of all the members of this committee, and I have assumed that the new members will be in the same frame of mind, has

been affected to a very great extent by the volume of trading, and, again, I am going to take my own market, because I know my own market, the market wherein I do business, and I want to call your attention to one or two facts.

The natural assumption has been, among those who are not familiar with the grain trade, that there should be a direct relation between the receipts of cash grain in a market and the volume of future trading in that market. If the volume of future trading is entirely disproportionate then you would naturally say that that represented a tremendous volume of speculation, out of all reason as compared with legitimate hedging transactions.

The Minneapolis market is the natural hedging market for the States of Minnesota, North and South Dakota, and Montana. Those States ordinarily raise a crop of about 250,000,000 bushels of wheat and about 125,000,000 or 130,000,000 bushels of oats. I do not know that those figures are quite accurate, but we will say they raise approximately 400,000,000 or 500,000,000 bushels of grains which are hedged or available for hedging in the Minneapolis market.

Now, as a matter of fact, while Minneapolis is a great consumptive center for spring wheat, the capacity of the country mills outside the city of Minneapolis are as great as of the mills within the city. In other words, the consumption of spring wheat is as great in the territory I have mentioned as it is in the particular locality which has acquired a reputation as being a milling center. The wheat which is consumed in those country mills is very largely hedged in Minneapolis. In addition to the wheat raised in that territory, Minnesota, the Dakotas, and Montana, there is a very considerable amount of choice wheat from Kansas which is selected and purchased down there by our mills, which is also hedged in the Minneapolis market. Then our crop of oats, as I have indicated, runs from 100,000,000 to 150,000,000 bushels in those four States—that is subject to correction, however—and to the extent that the market will take it, those oats are hedged in Minneapolis.

So we have, approximately, we will say, between three and four hundred million bushels of grains available for hedging in the Minneapolis market, all of which is naturally tributary there and is largely handled by dealers who either consign their grain to that market or who operate from that market as a center.

The Federal Trade Commission showed the maximum trade on the Minneapolis Grain Exchange in grain futures at a little under one billion and a half. The average, I think, for a period of five years, is about 900,000,000. In other words, we have 300,000,000 bushels of grain available for hedging—I am not claiming that all of that is hedged, but I am simply using that for a comparison—and we have 900,000,000 bushels of grain that has been hedged, or at least 900,000,000 bushels of future trading contracts in the Minneapolis market.

The simplest form of hedging operation, and the one most commonly indulged in, is that of the country grain dealer, and following the course of a large portion of the country grain dealer's shipments, he will say that that is sold twice at least. For instance, I operate country elevators. As I buy in the country I sell a future in the Minneapolis market. I ship that grain to Minneapolis and I sell it by sample. I then buy in my hedge. That grain has been

sold once. If I sell that grain to a terminal elevator man, as I frequently do, as he buys the grain he puts out a hedge, which is a second sale of the same grain; that is, it is sold twice. If I sell that grain to a shipper who is going to ship it to some eastern mill or ship it for export, when he purchases the grain he puts out a hedge, which also makes a double sale on that grain. Now, that shows the simplest form of hedging and the common form of hedging.

Mr. TINCHER. Before you leave that point, I just want to get one thing clear in my mind. When you buy that grain, you pay for it?

Mr. WELLS. I pay for it and sell a future against it.

Mr. TINCHER. But when you sell that grain to the terminal elevator, you get paid for it when you——

Mr. WELLS (interposing). When you deliver it.

Mr. TINCHER. And not until then.

Mr. WELLS. When I turn the car over to them.

Mr. TINCHER. And when that terminal elevator again sells that grain, he gets paid for it when?

Mr. WELLS. He gets paid for it as soon as it is loaded and he gets the documents.

Mr. TINCHER. In other words, when he delivers it.

Mr. WELLS. Yes.

Mr. TINCHER. And not until then.

Mr. WELLS. No.

Mr. TINCHER. Now, the men who gamble in that grain between the time the futures are traded in are not actually paying for the grain, but they just put up a small margin.

Mr. WELLS. No; just like the man who underwrites your fire insurance does not pay until you have a fire.

Mr. TINCHER. But the man who is gambling in that grain between times can not be compared with the man who writes fire insurance——

Mr. WELLS (interposing). No; except he is underwriting a risk.

Mr. TINCHER (continuing). Because he never intends to pay for it and he only puts up a small amount of margin and takes a chance on its going up or down.

Mr. WELLS. And a fire insurance man does not intend to pay for it either. He would have to charge a very much higher rate if he did. His rate is based on the chance he is taking of a fire.

Mr. TINCHER. But he has got the money to pay for it and if there is a fire there is no way out for him; but if there is a depression in the market in the price of wheat this man simply loses his margin that he has got up, which is generally a very small margin.

Mr. WELLS. Sometimes.

Mr. TEN EYCK. Mr. Wells, statements have been made here that when you, as the owner of an elevator, buy your grain then you hedge by selling that grain on the market.

Mr. WELLS. For future delivery?

Mr. TEN EYCK. Yes. Do you ever sell that grain for future delivery and then purchase the grain?

Mr. WELLS. I do not.

Mr. TEN EYCK. The reason I ask that question is this: If you purchase at a certain price and grain drops in the meantime, if you sold you would take a loss rather than have protection. How do you protect yourself in that situation?

Mr. WELLS. The law of averages works out, and this is my practice: You take my line of elevators in Minnesota and North and South Dakota. In the crop moving season we will say that the purchases are running 100,000 bushels of wheat a day, the price I pay in the country to-morrow is based upon the closing price in the Minneapolis market to-day. Before the close to-day, I sell on the Minneapolis market enough to cover my anticipated purchases to-morrow.

Mr. TEN EYCK. Then you do really sell before you purchase?

Mr. WELLS. I sell on the basis of the same price I pay out in the country. Now, if there is a rain or something of that sort and my purchases in the country are smaller to-morrow than I anticipated, according to the average of a week or 10 days, I buy back enough to leave me even on the market.

Mr. TEN EYCK. Now, I would like to ask you just one other question. It appears from the testimony that your idea is that the seller and the purchaser in futures stabilize the market.

Mr. WELLS. They afford a broad, liquid market.

Mr. TEN EYCK. Now, on the other hand, when the sellers and the purchasers all become bears, so to speak—these same speculators—does not that depress the market?

Mr. WELLS. It would, if that were possible, but that is inconceivable because no two men will agree on values.

Mr. TEN EYCK. But there are times when there are a great many more sellers than there are purchasers, and when they coordinate, that is the real exception to the rule and creates these large fluctuations that are unsatisfactory to the people at large.

Mr. WELLS. I might say this, that when the general economic situation of the country is such as to indicate a decline in values of all commodities, and people lose faith in values, the psychological effect is to make everybody bears, which they have been in the last six months, no matter what commodity it is. That is true of anything; but there is no collusion or possibility of collusion as between buyers and sellers, speaking broadly, because they come from all over the country. This risk is not centered in any one locality.

Mr. TINCHER. You dropped one remark a while ago that I am very much interested in. As I understand you, your cash wheat buy waits for the opening of the futures market.

Mr. WELLS. The cash buyer; yes.

Mr. TINCHER. Then, the future market determines the cash value?

Mr. WELLS. No; I would not say that. It does not in our market because our market——

Mr. TINCHER (interposing). If the man who buys actual wheat waits for the opening of the futures market to determine his market price, how can you say that the future does not determine the market?

Mr. WELLS. Because it is the relation of the cash to the future which largely determines our market. You see, we are largely a milling market.

Mr. TINCHER. Let us put it in this way: It is the future to the cash that determines the market.

Mr. WELLS. No; the cash leads our market.

Mr. TINCHER. You do not see future waiting around to see what cash is going to do. The man who is going to pay cash for wheat waits to see what future is going to do.

Mr. WELLS. No; you are wrong so far as out market is concerned. What happens in our market is this: If the mill buyers come in on the floor and are aggressive buyers of cash wheat, indicating that there is a flour demand, immediately our future market strengthens.

Mr. TINCHER. But you described your own condition a moment ago when you were talking about something else as being this, that you waited for the opening of the market.

Mr. WELLS. No; I said that the price I paid in the country to-morrow would be based on the closing price to-day.

Mr. TINCHER. Yes.

Mr. WELLS. And that at the close to-day, or at about the close to-day, I would sell enough wheat, presumably, to cover what I was going to purchase in the country on that same basis, and if to-morrow I find that I have sold too much; that I did not buy as much as I estimated I would, I buy back my futures contract to even the slate.

Mr. ASWELL. Under this bill, if you buy back part of your contract you would have to pay a tax.

Mr. WELLS. No; I would not, because I am a grain dealer; but the question is whether I could find a man who wanted to sell it. I want to emphasize this fact, that the cash receipts in a market have no proper relation, no positive relation, to the volume of future trading.

I have shown that the country mills in the Northwest, for instance, grind as much wheat as the Minneapolis mills. All of that wheat is hedged in Minneapolis, but the wheat never comes to Minneapolis. That includes a very large portion of the wheat and it shows the fallacy of saying that the cash receipts are directly related to the volume of future trading. That is more true of Chicago than Minneapolis. I speak now not as being from Chicago—I do not presume to know very much about that market, except that I use the facilities of the board of trade. Every year I hedge millions of bushels of oats in Chicago because of the fact that they have a broad, liquid market, and if I want to make a sale for export to a cereal company or to some Eastern manufacturer I can buy back 100,000 or 200,000 or 500,000 bushels of oats in Chicago without affecting the market one way or the other. In the Chicago market there are not only millions but hundreds of millions of bushels of wheat that are handled in exactly the same way. They never go through the terminal market. It would be a loss in transportation, an economic loss. Suppose every bushel of grain hedged on the Chicago Board of Trade had to go back to Chicago and then be distributed from Chicago to some points west, it would be an economic loss. There is one more point.

Mr. ASWELL. This bill would require you to deliver the wheat in Chicago?

Mr. WELLS. No; this bill would not.

I want to speak of the deliveries on future contracts. If the statement has been made once I presume that it has been made a dozen times and maybe many more than that, that there was an infinitesimal amount of grain delivered on future contracts as compared with the volume of sales of futures. Technically that statement is correct. There is no refuting it. A delivery on a future contract as contemplated by that contract when entered into would mean that

the grain would go into a regular warehouse, a warehouse receipt would be issued; that that receipt would be delivered to the holder of the contract; that he would pay for the receipt and would own the grain. But, as I stated before, if that practice were generally followed it would mean a tremendous economic loss; it would mean on every hedging operation that you would have to ascertain the man who got the grain and follow it to some point entirely out of line——

Mr. TINCHER (interposing). There is no measure before the committee that contemplates that.

Mr. TEN EYCK. Mr. Dickinson's bill contemplates actual delivery.

Mr. TINCHER. My bill does not.

Mr. WELLS. Let me tell you what the proposition is. I will make it personal again. I buy and store in the country a large amount of wheat and also in the terminals. I am often carrying in Minneapolis and Duluth five or six million bushels of wheat; that is, when the future market is higher than the spot market. That wheat is generally accumulated prior to February 1. That wheat is hedged in December, and purchased through October, November, and December, when there is a surplus of receipts over and above requirements. It is sold in December. If May wheat enhances sufficiently so as to give me my insurance and storage and interest, I buy back my December contract and sell a contract for May delivery.

Now, through February and March there is practically no movement in our part of the country—January, February, and March. If there is a milling demand, I have an opportunity very often of selling that wheat or a part of it to the mills located in Minneapolis or in the country at a price which will net me a profit as against carrying it and delivering it; I buy my May contract and sell the wheat to the mill. That cleans up that transaction. I did not make a technical delivery on that contract. I rarely ever make a technical delivery on any contract of grain that is stored in the country elevators. I frequently buy wheat and put it in store and unless I can sell it to better advantage I deliver it on future contracts, but to all intents and purposes I exchange actual cash grain for a future in settling my contract, and I have made a delivery, not a technical delivery, but an actual physical delivery of the property on the contract. The only difference is I do not make the delivery at the time specified in the contract when I entered into it. That point has been raised so often that I am anxious to press it home, even at the risk of repetition. That same thing is true to a greater extent, according to my knowledge, on contracts in the Chicago market than in our market, because of the vast amount of coarse grain hedged in Chicago. Those contracts are not always filled by technical delivery in the Chicago market, but in every instance when I make a cash sale in exchange for a future it is to all intents and purposes a delivery. It is a delivery prior to the date, and a different one from the original contract into which we entered.

Mr. TEN EYCK. You make actual delivery?

Mr. WELLS. I make delivery at a time other than that contemplated by my original sale, because it is to my advantage to do so. The argument has been brought up against futures here that they were not anything but speculative and gambling. I am trying to explain why there is so little delivery, because a part of that grain is required at some other point than the market when it is hedged. The grain is exchanged for the future, which to all intents and purposes makes a delivery, although it is not a technical delivery.

On these general questions perhaps I have taken more time than I should. I think I have covered the ones which to me seem important. My only interest is the preservation of the hedging market.

We come now to a consideration of the specific legislation before us. Contrary to the impression which you may have at previous hearings we discussed the grain business, the technical practice followed and the operation of exchanges, but we did not consider to any extent any specific legislation.

It is rather significant, and I think will give you a little confidence in the position of the grain trade, to know that there is hardly a provision in the bill H. R. 2363, Mr. Tincher's bill, which has not been covered prior to this hearing and subsequent to the general discussion of this subject by recommendations and resolutions of the boards of directors of the various grain exchanges of this country. The only thing is that Mr. Tincher, not being a practical grain man, has drafted a bill which, in my judgment, will simply kill the future markets.

I have no quarrel to make with such provisions of this bill as tend to place the grain exchanges under the supervision of a departmental head, provided that the arbitrary power to close those exchanges is not left with the head of the department. This is a matter which has been provided adequately for in other governmental activities, such as the Interstate Commerce Commission and the Federal Trade Commission, and if certain practices are deemed unfair or prejudicial to the public interest, those commissions notify the offending party to desist and provision is made for judicial proceeding which does not entail endless litigation, and makes very quick adjustment possible without interrupting business.

The fundamental complaint which I have to make of this bill, and it is one which can be remedied, is that it confines the trading in grain futures free of tax——

Mr. TEN EYCK (interposing). What section is that?

Mr. WELLS. Section 4. First to parties who have actual physical possession of the property covered by the contract. There is no quarrel with that, I think.

The second is that persons who are at the time of the making of the contract regularly engaged in the business of growing—Mr. Capper's bill in the Senate has "feeding," but the House bill has not—dealing in or manufacturing grain or grain products may enter into contracts for future delivery, if such contracts are made by or through a member of a board of trade which has been designated by the Secretary of Agriculture as a "contract market."

To my mind that provision clearly eliminates from trading in grain futures by anyone who is not regularly engaged in the business of growing, dealing in, or manufacturing grain or grain products. I have shown you the situation that exists in the Northwestern markets during the period of heavy movement and I have pointed out that either a class of traders other than grain dealers and millers must be permitted to enter the market or that the producer must carry the risk of ownership, and it is purely up to you to determine which of those two measures you will adopt. It is inevitable that you can not get away from the risk of ownership. I have also shown conclusively that the prices in the spring in our Northwestern markets

have not been sufficiently higher than those obtaining in the period of the heavy movement to pay insurance, interest, and storage. You will see, even if we had a perfectly level price, with no fluctuations other than the seasonal fluctuations, the producer, if he assumes the risk of ownership will be, in many instances, out because of the cost of the carrying.

Mr. ASWELL. You would change this?

Mr. WELLS. In my judgment paragraph (b) of section 4 should be so amended as to allow trading on the part of others than those engaged in the growing, dealing in, or manufacturing of grain or grain products.

There is no complaint, so far as I know, as to the recording of contracts, because that is the common practice to-day. When we go to a broker and sell 50,000 bushels of May wheat we get back a written memorandum which shows the hour at which the contract was entered into, the party with whom entered into, and it stipulates the May delivery which means in our market No. 1, 2, or 3 northern wheat. There is nothing in this provision which does not, as far as I am individually concerned, obtain to-day.

Mr. KINCHELOE. Just how do you think paragraph (b) should be extended?

Mr. WELLS. I am not a lawyer and I would not presume to indicate the wording, but I do think that that should be broad enough so as to permit trading on the part of those who are not directly engaged in the business of growing, dealing in, or manufacturing grain or grain products. The objection that has been made in the past has been that speculation leads to manipulation. Further along in this bill there is a provision which requires a grain exchange, in order to be designated a trading market, to adopt and enforce rules and regulations to prevent manipulation, and so it seems to me it is not necessary to place that precautionary measure in two separate and distinct instances in the bill. I am perfectly confident that if this measure is enacted into law as it stands you simply will do away with the hedging market. There will be a sort of market, but it will mean that if I come in with 100,000 bushels of wheat to sell, North Dakota or South Dakota wheat, I will have to look up a buyer instead of there being a buyer around all the time. Once more I will go back and point out the danger of introducing that feature into the handling of grain. What could be more natural than for two buyers, two big milling men, not by agreement, but just by casual remark, to say "There is a lot of wheat running to this market. We will not buy any for a day or two." That would leave the man in the country, the producer, absolutely without any stable price. Two interests on our market could drop out of the market and down it would go.

Mr. KINCHELOE. If you were to extend paragraph "B" to the parties you have in mind—I am frank to say I do not know whom you have in mind ——

Mr. WELLS (interposing). I mean the investing or speculating public.

Mr. KINCHELOE. How does that at the same time eliminate the gambler, as we call him, or the manipulator?

Mr. WELLS. It will be incumbent upon the exchanges in order to be designated as contract markets to enforce rules and regulations to prevent manipulation. Authority is also given in the event of

their failure to enforce such rules and regulations for the Secretary of Agriculture—I think that is wrong, but I will take that up later—for the Secretary of Agriculture to cancel their designation, cancel their license, so that they would be put out of business. When you think what that would mean ——

Mr. TINCHER (interposing). Canceling the market place would put them out of business?

Mr. WELLS. For future trading.

Mr. RIDDICK. How would they prevent manipulation by rules and regulations?

Mr. WELLS. It would have to be prevented. I think it could be prevented by rules and regulations, where the business is handled through a clearing house, by the manager of the clearing house watching the trades of people as they come in and if he saw any indication in excess of what might be expected in the ordinary trading or hedging business, demand an explanation.

Mr. RIDDICK. Would there not be twilight zones where one could hardly determine that?

Mr. WELLS. Absolutely.

Mr. TEN EYCK. From your criticism of paragraph (b) under section 4, wherein you suggest allowing additional people, so to speak, to deal in grain, it appears that the difference between you and Mr. Tincher, covering the entire bill, would be the definition of the words "dealing in" or their construction.

Mr. WELLS. I think that might be true, but also I have assurances from Mr. Tincher that the purpose of his bill is to eliminate the speculator from the market.

Mr. TINCHER. I think that the ordinary broker is a speculator.

Mr. WELLS. That depends on your definition of "speculator." It is the principle involved that determines the character.

Mr. TINCHER. My whole object in that section is to eliminate the manipulator.

Mr. WELLS. You have arranged for the manipulator later on.

Mr. TINCHER. That is my whole object in section (b), because I consider a man who buys grain from me and sells it to the mill is a speculator, but that is legitimate.

Mr. WELLS. Any property ownership involves speculation. You buy something because you hope to get a higher price when you sell it.

Mr. TINCHER. There is a difference between property ownership and gambling on the property?

Mr. WELLS. Yes, sir.

Mr. CLAGUE. Beginning at line 1 on page 3 of the bill it says, "Dealing in," does that mean otherwise interested?

Mr. WELLS. It might be.

Mr. ASWELL. Would not gambling be dealing in?

Mr. WELLS. No; I think not.

Mr. VOIGT. A man who is a lawyer or banker and who wants to speculate in grain could not do so under subdivision (b) of section 4.

Mr. WELLS. That is not the class that I was speaking of. I should like to see the incompetent speculation gradually dropped out, but there are men of means, not men of large means, who at times will see oats get down to 30 cents a bushel in the market and they will say, "You can not raise oats for 30 cents a bushel; I will buy 100,000 or 200,000 or 500,000 bushels and carry it,"—a very large number of

such men through the public. Those men are performing a very useful function, because they come in when the price is so low.

Mr. TINCHER. I would welcome an amendment which would permit a man to do that.

Mr. MCLAUGHLIN of Nebraska. You have several times referred to competent and incompetent speculators. Could you define them and tell us what the difference between them is?

Mr. WELLS. I will tell you what I have in mind. I have in mind a competent speculator, a man who, after going over the situation, looking at all available data as to the stocks of grain and the Government report on the condition of the growing crop, believes that wheat is too high or too low, and is willing to lose his money on that information. An incompetent speculator is a man who might have $100 or $200, and saw something in the paper about wheat going to $3 a bushel, and then will go to some fellow and buy a thousand bushels and put up $200, who does not know anything about the conditions. That is what I call an incompetent speculator.

Mr. MCLAUGHLIN of Nebraska. Can you give us some idea of the volume of business personally transacted by competent speculators as compared with incompetent speculators?

Mr. WELLS. I can not give you any idea about that; I do not think anybody can.

Mr. MCLAUGHLIN of Nebraska. Would it not be your judgment that the so-called competent speculators have a better idea of the condition of the market and usually are men of large means and more successful? Are there not more transactions by far by so-called competent speculators than by the so-called incompetent speculators?

Mr. WELLS. I think so. That would be my impression. It is simply an impression.

Mr. MCLAUGHLIN of Nebraska. If that be true—I am not saying whether or not it is true—then the competent speculator, according to your definition, is a far more dangerous man than the incompetent speculator, because he will affect the market and the little incompetent fellow will not affect the market?

Mr. WELLS. I can not agree with you. There would be no profit or loss in business if all men drew the same conclusion from the same facts as they saw them. In all lines of business there are conflicting views or we never would transact any business; we would stand still. The same is true in real estate, stocks and bonds, or anything else. Those conflicting opinions pretty nearly balance, they balance one way or the other whether for higher prices or lower prices, indicating the consensus of opinion based on the judgment of a large number of individuals as to conditions. That is what really happens.

Mr. MCLAUGHLIN of Nebraska. And the competent speculator wins?

Mr. WELLS. No; the most competent may lose. Conditions may turn over night, as they do. There is a crop of grain harvested every month of the year in some corner of this globe. In Australia, Argentina, Russia, formerly, and we will have it again, Russia, and the Balkan States, anything that happens to any one of those crops reduces the exportable surplus and may increase the demand for the surplus elsewhere in the world. So the competent man may be perfectly right

on the face of his original judgment and still over night it may turn like that [indicating].

Mr. TINCHER. What did you say about section 3—I was out at the that time?

Mr. WELLS. I think that has been covered. The sentiment in Chicago Mr. Griffin will express, but I know this, that there is a feeling in the grain trade and on the boards of trade of the country that indemnities or privileges or whatever you call them serve a useful purpose, yet if they introduce undesirable speculation in the market, should be eliminated.

Mr. KINCHELOE. As to the illustration you gave a moment ago, if a man saw oats down to 30 cents a bushel he would go and buy 10,000 bushels or 25,000 bushels and hold that, is it your contention that the words "dealing in" do not cover him?

Mr. WELLS. It says "regularly engaged in the business of growing, dealing in, or manufacturing grain or grain products. He may be a banker, or a doctor, or a lawyer—he is not regularly engaged in dealing in."

Section 3, as far as I am concerned, I have no objection to.

Mr. TINCHER. Would you suggest the cutting out of the word "regularly" in section 4?

Mr. WELLS. I think if you omit the word "regularly" there should be an insertion made, because otherwise it night not cover the situation where you would allow that class of investing speculators to go into the market and help carry the load. I do not presume to suggest the wording, but I think that the language should be broad enough to allow that class of speculation.

Mr. TINCHER. Do you think as to section 5 that it is all right to give that authority to the Secretary of Agriculture?

Mr. WELLS. Yes, sir; I do. I think, as far as section 5 is concerned, that it is entirely fair that the Secretary of Agriculture should have the right to designate the contract markets.

Mr. TINCHER. As to section 6——

Mr. WELLS (interposing). Let us get through with section 5. I think the definition in "a" is questionable; that is, that it is vague. "Unaffected by local conditions" is sort of a broad phrase. Take our market, it is the largest spring wheat market of the world. If there is a strong milling demand it affects our market, because it is a consumptive market. "Unaffected by local conditions" is rather a misleading phrase. All markets are affected by the local condition of supply and demand and by the condition of the crops in the territory contiguous to the market, but that is not a vital matter, but when you come to (b) in section 5 you are coming to a question which involves a physical impossibility. You take my own market, I say that because it is the market in which I do business, the Minneapolis market, trading in futures to the extent of 3,000,000 bushels a day, it would be an absolute physical impossibility to keep a record of every transaction that was made, a consolidated record, showing what you require the records to show. In the first place, in this future trading in our market the buyer and seller lose their identity after the original trade. You understand that we do business through a clearing house. If I sell 100,000 bushels of May wheat

I turn that into the clearing house. I have 100,000 bushels of May wheat sold. So, the identity of that trade is lost through the clearing house. The Government officials could get the same information as to what is going on, the records are public; in cash grain, I fail to see the advantage of keeping a record of every transaction, and I can see the physical impossibility of doing that. It would mean an overhead expense which would all be shifted back to the producer in an increased commission rate to pay the expenses of operating the exchange.

Mr. TINCHER. There is not any company doing business that does not keep a record of their cash grain.

Mr. WELLS. As I say, as to the individual keeping the record there is no objection. You provide in section 4 that every individual shall keep such a record and every individual does and should keep that record, but for the exchange itself to keep the record would be a duplication of work, and it would be a physical impossibility to keep it up to date, and nothing would be gained by doing that.

Mr. TINCHER. You mean it would be physically impossible for each dealer or for each individual to give to the exchange itself, or to the board of trade, a duplicate copy of their record.

Mr. WELLS. I think it would be physically impossible to keep it up because the business is handled in six months of the year, and if you have noticed the grain officers you have noticed that they are working day and night during those six months of the year, and they have not very much to do during the remaining six months. To make a record of every single transaction and every transfer, and the names and addresses of every party, a consolidated record by the exchange, in my judgment would be physically impossible, and if not physically impossible would entail such an expense that it would be practically prohibitive.

Mr. TINCHER. Now, let us see about that. They make that record themselves.

Mr. WELLS. The individuals have their own records.

Mr. TINCHER. So that there is a record that actually exists.

Mr. WELLS. Yes.

Mr. TINCHER. And you think it would be physically impossible, and make it very expensive, to furnish a copy of that record on stated occasions, say, every morning, to the board of trade?

Mr. WELLS. I think it would.

Mr. TINCHER. They are all in the same building.

Mr. WELLS. I know they are all in the same building, but you have no idea of the amount of detail involved. A car of cash grain often changes hands three or four times in the course of a day. A man will buy a car of grain and have an opportunity to dispose of it to somebody else who has a buyer, and he will dispose of it, and his buyer in turn sells it to another buyer, and it is transferred three times, and when you take two or three thousand cars a day, you can imagine the detail involved.

Mr. TINCHER. But there is a record made of it.

Mr. WELLS. The individual has a record of it.

Mr. TINCHER. When he is making that record, do you think it would be physically impossible for him to make a carbon copy of it?

Mr. WELLS. Yes; it is in a permanent book record and it would be available for investigation at any time. I think it is entirely proper

that the individuals should maintain permanent records with this information which you suggest.

Mr. TINCHER. What I am seeking to do is to have that information available for the Government. You were at the hearings before, and you know that we could not get any accurate idea at all of the number of sales, and who was making them and who was selling and who was buying, and later on in the bill we come to a section which you have already touched upon with reference to the disseminating of information.

Mr. WELLS. I agree absolutely with you on that. I do not think there can be any too rigid a restriction on it. I would rather that some one who is familiar with the details of exchange operations touched on this paragraph (b), and I will go on, if I may, to (c), about which there is no difference of opinion anywhere in the grain trade; that is, the paragraph with reference to the dissemination of inaccurate information.

Mr. TINCHER. There is no difference of opinion, and we all agree that there is an evil there that exists and that ought to be cured.

Mr. WELLS. It exists to a much less degree than ever before, and there is a constant improvement. I think that is very noticeable, and I think the responsibility being placed on the board of directors under this act will again produce better results than have been produced by voluntary action. The sentiment is all in favor of it.

(d) Boards of trade, the government of which provides for the prevention of the manipulation of prices by the dealers or operators upon such boards. .

I think there is no difference of opinion on that. I think every one agrees that each individual board must be responsible for the conduct of the business on that board, and I think that no arbitrary rule could be made. I quite agree with you, in your statement the other day, that no arbitrary rule could be made, because what might be equivalent to manipulation on one board, in the volume of business, would not be manipulation on another board, and consequently you can not lay down hard and fast rules.

Mr. TINCHER. Now, do not forget that when you come to the other section of the bill.

Mr. WELLS. Yes. As regards the private-wire matter, I have no no opinion to offer because I am not conversant with that business. I will only say this: If it can be proven that the operation of private-wire offices in rural communities induces incompetent speculation, I am against it. That is all I can say on that subject.

Mr. TINCHER. Most of the States have a law against bucket shops, anyway.

Mr. WELLS. There is a difference. You do not differentiate between a private-wire office and a bucket shop, and that is my position on this matter. If they induce incompetent speculation I think they are wrong. I am not prepared to say they do, because I do not know anything about the operation of them.

With reference to section 6, I would like to ask the meaning of "with a sufficient undertaking." The section reads:

That any board of trade desiring to be designated (a) "contract market" shall make application to the Secretary of Agriculture for such designation and accompany the same with a showing that it complies with the above conditions, and with a sufficient undertaking that it will continue to comply with the above requirements * * *.

I do not know what "sufficient undertaking" means. That has a legal sound which conveys the meaning to me of a bond with a forfeiture, and that sort of thing, although a penalty is provided for later on.

Mr. TINCHER. I have had in mind ever since the preparation of this bill whether it was necessary to require a bond and then give the Secretary the right to enforce his orders in the way I do.

Mr. WELLS. I do not see why a bond should be required when an extreme penalty is provided just following. I should think that a positive assurance would be all that was necessary because failure to observe the conditions upon which the designation is granted provides for the most severe penalty that could possibly be meted out.

Mr. TINCHER. Of course, I tried to draw this bill so that there could not be any expense on the Government, and if an exchange would go ahead and violate it I do not know that there is anything wrong with having a sufficient bond there to make them liable for the carrying out of the conditions that they agree to carry out in being designated.

Mr. WELLS. Personally I object to that, but I am not going to dwell on it.

The CHAIRMAN. Mr. Wells, how long will it take you to conclude?

Mr. WELLS. I will stop right now if you wish.

The CHAIRMAN. It is now 20 minutes after 12. Would you prefer to go on now?

Mr. WELLS. I have just one more point and then I am through.

The Secretary of Agriculture is authorized to revoke the designation of any board of trade as a "contract market" upon a showing that such board of trade has failed or is failing to comply with the above requirements or is not enforcing its rules of government made a condition of its designation as set forth in section 5. Such revocation shall only be after a notice to the officers of the board of trade affected and upon a hearing.

To me that is contrary to all procedure of this Government. It is taking a position which is not taken in any other instance that I know of, and I would very respectfully suggest that you substitute for that the procedure which has been adopted in the case of the Interstate Commerce Commission and the Federal Trade Commission which was devised, I understand, for the purpose of preventing any undue delay in litigation, and at the same time bringing the matters under dispute to adjudication and permitting business to go on. Under this provision, "such revocation shall only be after a notice to the officers of the board of trade affected and upon a hearing," there is nothing to prevent the Secretary of Agriculture, if he should be hostile, and we have had secretaries of agriculture who were hostile, to the existing grain marketing systems and who were one-sided in their views, because they are human, there would be nothing to prevent the Secretary of Agriculture from closing, we will say, the Chicago Board of Trade. I take that as an illustration because it is the largest. Revoking their license as a contract market, in my judgment, would produce nothing more or less than a panic. Hundreds of millions of bushels of grain against which future contracts are sold would be tied up and the revocation of that designation would produce consternation immediately, and would affect not only the grain trade but would be reflected in prices immediately. It would be reflected in the case of the banks who had advanced money on grain and were uncertain as to the termination of contracts—how they would be terminated or

when. It would affect the commercial interests who were dependent for their collections upon the money received from grain in the course of marketing, and I think it would be wiser if you were to follow the ordinary procedure as indicated in the case, as I say, of the Interstate Commerce Commission. I do not know the procedure but you gentlemen do or can find it out. It provides for a notice to cease and desist from certain practices, and then have an immediate adjudication, and that was devised for the very reason that you do not want to refer them to the courts. It was devised to avoid undue delay, and it is applicable to this legislation, as it is to any other governmental control, and I would suggest its substitution.

In closing, gentlemen, I want in the first place to thank you for your patience, and in the second place, to tell you this: One reason why you have seen sagging markets in the last 90 days, particularly, is because of the fact that the speculator will not go into anything which he thinks involves a lawsuit or where there is uncertainty. The validity of future contracts has been very seriously questioned in hearings here and elsewhere throughout the country.

Legislation has been talked of very freely. There has been a great deal of loose talk. There has been a great deal of talk based on misapprehension. I will say that I think practically all of the talk has been based on a misapprehension and the result is that buyers are not obtainable. We have seen an example of that in Minnesota recently. Our legislature in Minnesota passed an antifutures bill which in fact accomplishes, I think, very little toward changing existing conditions, if anything, but it has had this effect: Dealers from outside who were accustomed to trading in various markets have said, "I do not know. You say your status is the same as it was before the passage of this act, but it has never been tested in the courts, and we do not propose to buy a lawsuit." So we have been short of buyers in our market right along, and the same thing is true all over this country. I was talking the other day with Mr. Barnes, a week ago last Thursday, and Mr. Barnes asked me if I had noticed this effect in the Western markets. He said he had talked to men who were customary investors when grains were low, and they said, "No; we do not want anything to do with grain. There is going to be hostile legislation, and we do not want to buy a lawsuit;" and so, the more speedily you can settle this matter, after giving it due consideration and after considering the necessity for preserving the hedging market, the better it will be for the producer and the entire country.

Mr. TINCHER. You mean that under existing conditions you think it will have a wholesome effect upon the trade to have sane, sound, national legislation.

Mr. WELLS. I think so; and I think we court it. I think we court any legislation which will permit of a broad, liquid hedging market. I think we ask for it. I think we admit that there have been faults in the previous system. I think we admit the benefits of these hearings in bringing to our attention matters which from custom, perhaps, we had grown to ignore, and I do think that we ask for sane legislation which will give us and preserve a broad hedging market, a liquid market, and I think in order to do that you must permit trading on the part of classes of people other than those regularly engaged in growing, dealing in, and manufacturing grain or grain products.

I am very much obliged to you, gentlemen.

The CHAIRMAN. We are very much obliged to you, Mr. Wells. Have you any witnesses for this afternoon?

Mr. WELLS. For this afternoon we have several gentlemen waiting here.

The CHAIRMAN. And your desire is that the committee meet this afternoon?

Mr. WELLS. Yes; if you please.

(Thereupon the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee met at 2 o'clock p. m., pursuant to recess, Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will be in order. Mr. Wells, who will you have appear next?

Mr. WELLS. I would like to have the committee hear Mr. Charles Quinn, who is the secretary of the Grain Dealers' National Association.

The CHAIRMAN. Mr. Quinn will please come forward; the committee will be pleased to hear him.

STATEMENT OF MR. CHARLES QUINN, SECRETARY GRAIN DEALERS' NATIONAL ASSOCIATION, TOLEDO, OHIO.

Mr. QUINN. Mr. Chairman and gentlemen of the committee, I might for the benefit of the committee just say a few words briefly to outline the scope of this national organization. The Grain Dealers' National Association takes in everyone engaged in the grain business; in other words, the so-called independent grain dealer—everyone exclusive of the cooperatives. That is to say, it takes in the receiver in the terminal markets, and the shipper in the terminal markets, and the interior receiver, and the broker, and the grain man, and the exporter; all those engaged in the grain business in all the various capacities.

The National Association has members in 48 States. Our membership includes all the grain men, you might say, from Duluth to Tampa and from Seattle to Boston.

I was very much surprised this morning after hearing the testimony of Mr. Wells to find what seems to be virtually a unanimity of opinion on the part of the members of this committee. The members did not tell this to me but I seem to have sensed it. In the first place, I am quite sure that Mr. Tincher, Chairman Haugen, and the other members of this committee have no intention and never had any intention to eliminate option trading. Their idea was to do what the members of the Grain Dealers' National Association have at different times in the last quarter of a century endeavored to do—eliminate certain evils connected with speculation. Those evils have been more or less manifest even to the laymen. They have been apparent to these men engaged in the grain business; and Mr. Reynolds, the chairman of our legislative committee, who appeared before this committee in January last, explained at considerable length, if you will look up his testimony, that the Grain Dealers' National Association and the men who stand for commercial ideals

in that organization have always recognized certain evils that are connected with speculation, and they have endeavored to find some remedy for them.

Mr. Tincher has shown a disposition all through this hearing to be fair, to recognize the position in which the grain trade is placed, and to understand that in eliminating the evils of speculation he is likely to eliminate speculation entirely. I think that in the back of his head he feels that he might, if he continued to press that bill that he may be put in the position of the doctor who said that the operation was a complete and perfect success but that the patient died.

There is no use of my going at length into the features of Mr. Tincher's bill because I could not if I wanted to point out the weaknesses of the bill as ably as Mr. Wells did this morning. I think that Mr. Wells's statement in some respects was a masterpiece of moderation and clear thinking, and Mr. Wells, like Mr. Tincher, showed a disposition to be fair, to frankly recognize the evils and to frankly confess that he would be more than willing to see Mr. Tincher's bill enacted into law with certain modifications, amendments, and changes that all practical grain men know are needed in order to preserve option trading.

Mr. Wells this morning, just before recess, had reached, I think, section 8, and there was one thing that he overlooked, and it is the only thing in this bill that it seems to me requires, so far as I am concerned, any observations, and that is section 9.

Section 9 provides:

> That any person who shall fail to evidence any such contract by a memorandum in writing, or to keep the record, or who shall fail to pay the tax, all as provided in section 4 hereof, shall pay in addition to the tax a penalty equal to 50 per cent of the tax levied against him under this act and shall be guilty of a misdemeanor, and upon conviction thereof be fined not more than $10,000 or imprisoned for not more than one year, or both, together with the costs of prosecution.

Now, that is the penalty for failure to evidence this memorandum. And then the section goes on to say:

> And any contract of sale for future delivery upon which the tax shall not have been paid as provided herein shall be unenforceable in any court of the United States, or of any State or Territory.

Now, gentlemen of the committee, I can not understand why an innocent party, as that section would seem to provide, would be compelled to have a contract entered into in good faith annulled or unrecognized by the courts. Mr. Tincher provides here a very severe penalty, the maximum, for failure to comply with this requirement as to a memorandum in writing. And then he goes on to say that if some man in good faith should happen to be a party to one of these contracts such a contract would be of no force and effect in any court.

That is the only provision in the bill that seems to have escaped the observation of Mr. Wells; and I do not know whether it did escape him or not, and it may be that I do not read in that provision the meaning which Mr. Tincher has in mind.

And in that connection let me say that perhaps when Mr. Tincher presented this bill he had in his own mind many things that do not seem to appear from a reading of it by a disinterested or outside party, such, for example, as subsection (b) of section 4, which caused so much comment this morning, and as to which Mr. Wells

wanted to know what the author meant by the words "dealing in," and asked if they included the professional speculator. Mr. Tincher seems to think these words do include him, but I want to suggest that the trouble with these bills always is that they are not finally interpreted by the author but by the courts. So it seems to me this bill would require not only some amendments but some clarification in order to make its meaning thoroughly distinct and clear.

I am frank to confess that when I first read subsection (b) of section 4 I took it to Mr. Tincher and talked it over with him in his office one morning, and my impression was that it did not include the professional speculator.

The question of maintaining the option market but eliminating the evils that are connected with option markets has been one that has agitated, I should think, the moral forces of the community rather than the economic. There have been tracts and articles in newspapers and periodicals without end written with the idea of attempting to show the morality of option trading, and when they speak of the immoral side of it they, of course, meant what Mr. Wells was pleased to admit this morning—the uninformed speculator.

There is one question about the moral subject that no one can avoid; no economist or business man attempts to meet it, because it can not be met; and when it comes to the question of eliminating the uninformed from the moral standpoint, there is no man in the grain trade, unless he wishes to stultify himself, but who is in complete accord with the members of this committee.

In connection with the Grain Dealers' National Association I might tell you one of its activities just by way of showing to you what is likely to happen in the administration of any such bill as the Tincher bill as it is now written. The Grain Dealers' National Association some 20 years ago started compulsory commercial arbitration. It is one, if not the pioneer, in the matter of compulsory commercial arbitration. When a member joins our association, he obligates himself to arbitrate any trade disputes he has with any other member, and the one and only purpose of that requirement is to escape from the civil courts, to get away from judges with their long legal arguments, and to avoid possible unfair decisions by judges and civil courts.

The grain trade is notoriously technical. It is a life study in itself. I have been in it now nine years and have been working at it day and night, and I am very frank to confess that there are many, many things connected with the grain trade I do not know anything about. Mr. Wells will tell you, and he has been in the business for I do not know how many years and is one of the leaders in the grain trade in the great Northwest—Mr. Wells will tell you that when it comes to certain branches of the grain trade, as to matters in Chicago connected with the option market or anything of that kind, that he will prefer to leave any answer to such a question to someone actively engaged in that branch of the business.

And so it is all the way down the line. There are very few men in the grain business who understand it in all its ramifications, from the country jobber up to the man who hedges in the terminal market. Therefore it is not surprising that the man who has only been in the business nine years has failed to master it all.

And if that be a fact, and it unquestionably is, how absurd it seems to me for a number of men sitting around a table, the most of whom are attorneys and know nothing whatever about the grain trade, to listen to a hearing covering a week or 10 days and then presume to pass a law that would eliminate certain evils in the trade or to tear down the great structure that is an evolution of three-quarters of a century. So I say to the members of this honorable committee if you want to pass a measure that will not destroy option trading—and it is my belief that you do not wish to do that—it is only fair that you should not only consult with men who have spent all their lives in the business but be largely guided by their experience. Possibly the only objection to that plan would be that you would want some evidence of good faith on their part. You might say they are actuated by self-interest and it is just possible they will not give the information that will do the thing you wish to do.

But I do not think in this case there is any question about their attitude. I think the moral forces of the grain trade, and I say this advisedly, I think the better element in the grain trade are in complete accord on the subject of this bill; and I do not think there is the slightest difficulty about the author of this bill and the members of this committee getting together with the recognized leaders in the trade and making the necessary changes in the bill and formulating a bill that would be constructive.

Mr. TINCHER. Mr. Quinn, the average member of this committee is supposed to have demonstrated some little qualification as a business man and a man of force before he was elected to Congress. Do not you think it would be possible for such men, after having heard the views of all the parties at interest and after reasonably satisfying themselves as to the situation existing and as to the form of the cure, to formulate a bill that would meet the situation, or do you think it would be necessary to let the grain trade settle the matter?

Mr. QUINN. I do not say that you would want them to write the bill; of course not. But the point I want to make is this, and it is casting no reflection whatever upon the mental capacity of the members of this committee, that you can not hope to do in a week or 10 days what ordinarily requires a lifetime of study, effort, and experience to acquire.

Mr. TEN EYCK. Is the board of trade established and are the rules and regulations of the board of trade made for the benefit of the farmer?

Mr. QUINN. I would not say that.

Mr. TEN EYCK. Is the board of trade run for the benefit of the consumer?

Mr. QUINN. I would not say that.

Mr. TEN EYCK. That is what this committee is working for—for the benefit of the farmer and of the consumer and of all the people.

Mr. QUINN. Except that I would say this, that there is such a thing as enlightened self-interest; and after all in its last analysis enlightened self-interest is the only thing that finally controls in any board of trade run exclusively for the members of the board of trade. Without taking into consideration the interest of those who come on the board of trade any set of rules would ultimately defeat themselves.

Mr. TINCHER. The gentleman spoke of being somewhat surprised this morning, and I want to confess that that surprise was mutual. I want to ask you, Mr. Quinn, if this forenoon, or if at the time of recess and just as Mr. Wells closed his statement, wasn't the first time in the history of this Government in all its ramifications and hearings we have had concerning legislation pertaining to trading in futures and to grain exchanges that a well-informed man actually engaged in the grain business in the way that Mr. Wells is, has ever advocated the enactment of any law by the Congress of the United States—I say, advocated it in a public hearing?

Mr. QUINN. I adverted near the beginning of my statement to the testimony of Mr. Reynolds, the chairman of our legislative committee; and if you will look up his statement you will find that he virtually did the same thing. And he gave the history——

Mr. TINCHER (interposing). I am not talking about "virtually." I heard his testimony and referred to it in my statement here the other day. But isn't it true, as Mr. Wells said, that there are a number of practices in the grain exchanges that have grown up through custom and which have been adopted, and yet until our hearings and the general stirring up of the matter in the public mind attention was not called to the fact that they ought to be abolished and that the matter ought to be regulated by law? And, as the gentleman has so well said, the grain exchanges and boards of trade are looking after the interests of their members, which would be only natural. It is hardly fair to men who have been elected to help make the laws of this country to say to them that here are evils in this thing, here is something that affects the population of this whole Nation and that is wrong, but you try to cure it and back in the back part of your head there will be a lurking feeling that if it does not work perfectly the fact that you tried to cure it will damn you with your fellowmen. I say to you that if a Member of the Congress lets a lurking feeling in the back of his head prevent him from trying to cure an evil, then he ought never to have been elected to Congress. And I want to say that an intimation that I must look out in any attempt to cure an evil of this kind because it may not be an absolute success will not deter me and will not cause me to let the grain exchanges rewrite my bill.

Mr. QUINN. I think you have placed a misinterpretation on what I said. I do not think I intimated that the grain exchanges ought to write or to rewrite your bill. What I said was—and it is no reflection whatever upon you or any other member of this committee—that in the short space of a week or 10 days it is not possible to write a bill, not without complete consultation with the men who have spent their lives in the business.

Mr. TINCHER. Well, I have had quite complete consultation with the men from the other end of it for the past 20 years. They have bought my grain as I produced it. And I have had some information and experience in the business world for a good many years before I came here. We all have to live for a good many years before we come here, and if we are not sitting around a blackboard or in a grain pit we very likely have to be at work in the field or at something else. A man who is to help make the laws for the people of this country must consider all the people. I may not be well informed on the blackboard end of this game, or in the ways of the grain pit, but I

think I do know something about producing wheat from tilling the ground.

Mr. ASWELL. You stated a few minutes ago, Mr. Quinn, that your association is endeavoring to eliminate evils in the speculative end of the business, and that you include practically all the grain dealers in the country in your association. Why have not you succeeded without any legislation?

Mr. QUINN. Well, it has always been the great difficulty in securing the sort of legislation——

Mr. ASWELL (interposing). Your association does not control any grain exchanges, as I understood you?

Mr. QUINN. Oh, no. Our association does not control grain exchanges, but the individual members of grain exchanges belong to the association.

Mr. ASWELL. Why have not you eliminated these troubles?

Mr. QUINN. We have nothing to do with the formulation of any rules and regulations of exchanges. They make their own rules and regulations.

Mr. TINCHER. I might say to the gentleman that I have been in the grain business some length of time, for the same length of time that I notice from Mr. Barnes' statement he has. But I have been on one end of the deal and he has been on the other. I have not done as well in the grain business as Mr. Barnes has, but I am not in favor of furnishing scientific figures to show that I lost money every year, as Mr. Barnes does. I want to pass a law to prevent Mr. Barnes and Mr. Wells from losing so much money on it.

Mr. ASWELL. I understood Mr. Wells to say that he did not lose money but came out practically even, but that the other man lost.

Mr. TINCHER. I believe Mr. Barnes did figure a loss, but Mr. Wells figured a nominal profit.

Mr. WELLS. Those are theoretical figures.

Mr. TINCHER. I understand.

Mr. QUINN. In conclusion, if you have no more questions to ask me, I might say that the Grain Dealers' National Association has about 5,200 members, of whom about 2,000 are direct members. That is, they belong to the terminal markets. This year we estimate that we will lose nearly 500 members, of whom practically 400 will have just gone out of business. I say that in order to leave with you the thought that the farmer is not the only one who has suffered in the deflation of grain prices.

Mr. KINCHELOE. You spoke of this committee sitting here only ten days undertaking to write this bill. There is a volume of hearings lying on the table, though I was not a member of the committee at the time, showing what an exhaustive hearing has heretofore been had on the subject. I understand that at those hearings the best informed grain men of the country were before the committee and testified, and that the best informed men outside of the grain business were also present and testified. That being the case if we sit here as members of the Congress, representing constituents in all kinds of businesses and looking to the welfare of all the people, and receive information from your side of the question and the other side of it, the best talent you have got, I want to ask by what other method could we proceed to inform ourselves in order to write a proper bill,

and who would be more competent, if our ability measures up to what a member of Congress ought to have and if we have in view the interests of the whole people, to give us information before we proceed to write the bill? How could you ever get a law written if we did not proeed along this line? What would be your suggestion as to who ought to write these bills?

Mr. QUINN. As I said before, there seems to be a misconception of what I previously stated. Perhaps I did not make myself clear. I did not say that Mr. Tincher and this committee, and you as a member of it, should turn over to Mr. Wells or to anyone else in the grain trade the writing of a bill. I did not say that you ought to ask him or anyone else to write or rewrite this bill. What I did say was that in an involved, intricate business like the grain business—and it is only removed by a matter of degree from other businesses that are more involved until you get to Prof. Einstein's theory of relativity—you must have thorough information as to the subject and of the effect that any action you take will have, before you can properly legislate. Suppose, for example, you were asked to write a bill on some abstruse scientific subject. That may be a little far-fetched, but it is a matter of degree rather than of kind. Suppose you were asked to write some bill about some technical engineering subject, it is no reflection on you to say that you would call in engineers to help you to write it, would it?

Mr. KINCHELOE. Not necessarily to help me to write a bill, but I would want the best advice I could get from the best engineers in the country, just like we are doing with you now in the grain business. But after I got that advice I would reserve to myself the right to write a bill in the interest of the whole people.

Mr. TEN EYCK. As to the making of rules and regulations for the boards of trade, who makes them—the members?

Mr. QUINN. It depends upon these different markets. In Chicago I understand they are made entirely by the members. I think the Chicago Board of Trade always has called itself a big democracy. There are two interests in the Chicago Board of Trade, (1) the cash grain dealer, and (2) the future interest.

Mr. TEN EYCK. Has your board ever called before it the master of the Grange, representing the producers, or the president of the federation of farm bureaus of the country, to ask them about their interest in the work you are doiag?

Mr. QUINN. Of course the farm bureau and the most of the things you speak of are of very recent growth. What I am speaking about is a matter of years.

Mr. TEN EYCK. The Grange is a very old organization, perhaps as old as yours. In addition to that I want to ask if you have called in Mr. Gompers, representing the workers, to learn their interest in the transmission of eatables of life from producer to consumer? What I want to bring out is that we here are representing everybody, and therefore you as a biased organization, with your own self-interest, are not as capable of writing a bill at this time as we are sitting here as representatives of the entire people of the United States.

Mr. QUINN. We are not necessarily selfish——

Mr. TEN EYCK (interposing). I did not say that you were selfish but that you are actuated, very naturally, by self-interest.

Mr. TINCHER. You mentioned the Chicago Board of Trade as a big democracy. I believe that the present governor of Illinois and mayor of Chicago are describing it in somewhat different language just at this time.

Mr. QUINN. Well, that is the way they formulate their rules. The president of the Chicago Board of Trade is here and I would prefer that you would ask him that question.

Mr. TINCHER. He is a very nice gentleman and we will be glad to hear him.

Mr. JONES. Have you considered the form of bill that you think would be a good one in connection with the Tincher bill?

Mr. QUINN. If you followed Mr. Wells's testimony very closely this morning you noticed that he objects to one or two of these sections like I do, I think subsection (b) of section 4 and subsection (b) of section 5.

Mr. JONES. It is quite a different thing to point out objections to a bill and to making suggestions as to how to write a bill. I wanted to know if either of you gentlemen have drafted what you think ought to go on as amendments to or changes in the Tincher bill?

Mr. QUINN. No; but it would not take long to do it.

Mr. JONES. Frequently one can ask suggestions and by a modification of a bill accomplish what is needed.

Mr. QUINN. Of course we did not presume to come down here and attempt to write or rewrite a bill. Notwithstanding the impression Mr. Tincher is trying to leave, we did not come down here, and there is no one connected with this delegation who has the thought of trying to rewrite Mr. Tincher's bill, and for the very obvious reason that you might take umbrage at it if we did. But I do not think there is any difficulty about that matter.

Mr. JONES. I did not mean to suggest that you should rewrite the bill, but Mr. Wells has stated that Mr. Tincher's bill has some very constructive features, and that with one or two modifications, or at least with a few modifications, he thought it might be a good bill. Now, the point I want to make is that if modifications are to be made to the bill they have to be suggested by someone, not only in the form of a mere suggestion but in the form perhaps of actual language.

Mr. QUINN. Now we are beginning to understand each other.

Mr. JONES. If any modification that any of you desire made were reduced to the language desired it would be looked over and at least considered much more tangibly and intelligently than by a mere suggestion or criticism in conversation.

Mr. QUINN. We are beginning to understand each other. If the committee wants us to do that we will be very pleased to do it I am sure.

Mr. JONES. I was not suggesting anything for you to do, but think we would come nearer having your ideas in concrete form to consider in connection with embodying them in the bill if you were to make some kind of suggestion in writing in language that you wish to suggest. I know that in connection with various hearings and in several committees if someone who wants some slight change made in a bill suggests the form of the language of the change desired the committee can better consider it.

Mr. QUINN. We will be very glad to do that.

Mr. ASWELL. I noticed that Mr. Wells did not want to do that but preferred to let some one else suggest the language.

Mr. KINCHELOE. Do you agree with Mr. Wells that there are now, and have been, practices indulged in by the boards of trade in the manipulation of the grain market that are indefensible and that should be eliminated?

Mr. QUINN. Surely, I do.

Mr. KINCHELOE. Then why is it that these boards of trade and your organization have not done it yourselves? If you would do that there would be no occasion for the Tincher bill or any other kind of bill.

Mr. QUINN. Well, I do not know about that, there might be even if the Chicago Board of Trade and other exchanges had attempted it.

Mr. ASWELL. Tell us what attempts have been made along that line?

Mr. QUINN. Well, the attempts that have been made by the National Association in the past have been an agitation among their members for the purpose of preparing for just such a situation as has arisen. But you must stop to think that this great machine, this distributive machine, is of slow growth, and is a matter of evolution from nothing up to what it is now. In all great structures like that there are sometimes more or less barnacles that grow on it. That is inevitable in the case of anything. That is true of churches as well as everything else. You will find that churches are founded upon a grain of truth, but that around that great structure has been reared some truth and some falsity. By process of evolution that is the situation these things sometimes get into, and after going on for a number of years they are looked upon as a custom and it is hard to get rid of them. But that does not prevent the more intelligent men in the trade from recognizing their existence and making an effort, and to hope that the time will come when they will be cut off.

Mr. JONES. You have certain rules and regulations that govern the conduct of the exchanges?

Mr. QUINN. The Grain Dealers' National Association has nothing to do with either the rules or regulations or the formulation of any rules or regulations in the exchanges. The members of the exchanges, however, as individuals are members of our organization.

Mr. JONES. Have the exchanges some written rules and regulations by which they govern the conduct of their members?

Mr. QUINN. They have, and they are constantly changing those rules and regulations, and some exchanges have better rules and regulations than other exchanges. It depends very largely upon the personnel and upon the history surrounding their growth. Some are quite progressive and some are not so much so.

Mr. JONES. Have any of the leading exchanges made any decided effort by adopting specific rules and regulations to eliminate some or all of these things?

Mr. QUINN. Oh, yes; the Chicago Board of Trade has done it. Mr. Griffin, the president of the Chicago Board of Trade, is here, and I would prefer that you should ask him. The Chicago Board of Trade has in the past eliminated many abuses.

Mr. KINCHELOE. Each one of these bodies is a self-functioning body, isn't it?

Mr. QUINN. Surely.

Mr. KINCHELOE. If they are and can eliminate abuses, the thing I can not understand is why they do not eliminate those that exist now. All of you admit that there are abuses existing to-day, the reason of their existence having brought this proposed legislation into existence.

Mr. QUINN. Well, the Chicago Board of Trade has recently made efforts along that line. I do not know whether they have been brought to your notice, though I think they have probably been brought to the notice of the most of the members of the committee, and the Chicago Board of Trade has announced recently a number of changes in their rules and regulations that they propose to adopt, but I do not think they are predicated upon this legislation at all. For example, take the matter of the abolition of the old puts and calls, and regulation of warehouses, etc.

Mr. TINCHER. The trouble about their doing that—and my attention has been called to it, and I think it very commendable in the Chicago Board of Trade to start to do that—but as I said, the trouble about their doing that is that it is of no effect if it is permitted on the Kansas City Board of Trade and the St. Louis Board of Trade, or somewhere else. There ought to be a law against puts and calls, for instance.

Mr. QUINN. They would not object to abolishing puts and calls. There are several paragraphs in this bill of yours that Mr. Wells referred to this morning which he described as very constructive. One of the things he had in mind was a law against puts and calls, and as to warehouses, and against the misuse of private wires, and things of that kind, which is indorsed by the grain trade. It was the incorporation in your bill of these several features that made him say, and he said it with considerable candor, that the legislation proposed was constructive.

Mr. TINCHER. The only way anyone could ever get information to incorporate in a bill; that is, information that another has, is just as the gentleman from Kentucky (Mr. Kincheloe) says, by getting information through a hearing of statements and by observation. That is all the excuse there is for what is contained in the proposed bill.

Mr. QUINN. The Chicago Board of Trade has undertaken to rigorously censor all market letters, and to do things of that kind. But they have not done that with the expectation that it will head this matter off. That was not the idea in mind at all. At the same time these things they have done are in harmony with many of the things that Mr. Tincher has in his bill.

Mr. TINCHER. In other words, the hearings that have been held have called attention to many things that exist, just as many things I have seen and heard have called my attention to the abuses that exist. Since hearings were started here last winter the Chicago Board of Trade are making some rules and regulations right along these same lines as contained in this proposed legislation.

Mr. QUINN. They are constantly making changes in their rules and regulations. The Chicago Board of Trade like any other body, has an administration that is more progressive sometimes than at other times.

Mr. TINCHER. These things ought to be abolished not only by the Chicago Board of Trade but by every other organization if they are

wrong. But it takes some committee of some responsibility to recommend a law and the Congress to pass such a law. Of course now is a good time to pass it, because conditions can not get much worse, and they can not blame much of the conditions that exist on any law. I suppose the grain exchanges will have the privilege of saying that everything that goes wrong with the trade in the next few years will be caused by the law that is enacted. Heretofore the packers and grain exchanges have been content to say that everything that went wrong was caused by the agitation for the passage of a law; and I suppose now if we pass this law they will say it is caused by the enactment of the law.

Mr. KINCHELOE. Have any of these boards of trade tried to prevent the work of the grain manipulator?

Mr. QUINN. Yes; but I prefer to have you ask Mr. Griffin about that. He is here and he will appear before you, and he knows all about it. He is actively engaged and has been engaged in both the speculative and the cash grain ends of the business and understands the rules thoroughly, and any questions of that kind you care to ask Mr. Griffin he will be only too glad to try to answer.

The CHAIRMAN. I understood you to say that your organization was in favor of eliminating certain evils. Will you be kind enough to indicate what those evils that your and other organizations recognize to exist are?

Mr. QUINN. Well, for example, the abuse of the use of private wires is one of them.

The CHAIRMAN. All right; now what else?

Mr. JONES. Would you abolish the private wires?

Mr. QUINN. I do not say I would abolish them. I am not in a position really to pass intelligent judgment on that matter because I have not been closely enough associated with the matter, but there are many others connected with the private-wire matter who could give you an answer. For example, the extension of the private wire out into the little wayside town, and all that kind of thing; as to that I believe the use of the private wire ought to be regulated. The Grain Dealers' National Association has always been in favor, for example, of having the terminal market censor all market letters so that their members would not try to influence the trade in any one direction, such as saying that now is a good time to buy or sell. They have always felt that that was an evil.

The CHAIRMAN. But that is usually done, isn't it?

Mr. QUINN. Well, the Chicago Board of Trade is undertaking now to correct it in their market, and have asked other boards of trade to do likewise.

The CHAIRMAN. Commission men, as a general thing, advise their customers as to when to buy or to sell, and shippers rely on their judgment?

Mr. QUINN. That is not what I refer to.

The CHAIRMAN. Well, in other lines of activity, such as the shipper of grain?

Mr. QUINN. If some shipper were to call up his member of the board of trade to know when he could ship, that would be a different thing from sending out letters broadcast for any and everyone who cared to read them.

The CHAIRMAN. In their daily letters to their customers they offer suggestions as to when and not to ship, and as a general thing the country merchant relies upon the better judgment of his commission man. Now, what is the next thing?

Mr. QUINN. That is all.

The CHAIRMAN. Are there any other suggestions that you have to offer?

Mr. QUINN. I understand that the board of trade has undertaken to discourage speculation, mainly on the part of uninformed investors, many men who hold responsible monetary positions or are in responsible monetary institutions, like bookkeepers and people of that kind, in order to take away temptation and improve conditions in that way.

The CHAIRMAN. You spoke about compulsory arbitration; who was responsible for that, the exchanges or your association?

Mr. QUINN. No, the members of the exchanges. For example, if a man in Chicago sold to a commission man in Jacksonville, Fla., and a dispute subsequently arose either as to grade or price or anything that entered into the contract, the dispute would be arbitrated before an arbitration committee of our association, and we have six such committees.

The CHAIRMAN. Who instituted that?

Mr. QUINN. The Grain Dealers' National Association.

The CHAIRMAN. Have the grain dealers all agreed to that?

Mr. QUINN. It is a matter of contract. They have a contract of their own. Some Chicago contracts, for example, read that in case of any dispute arising the matter must be arbitrated in Chicago, and then it becomes a matter of contract, and of course we can not go behind it.

The CHAIRMAN. Arbitrated by whom, by their own board, isn't it?

Mr. QUINN. Arbitrated by an arbitration committee of their own board.

The CHAIRMAN. Well, a board of their own selection?

Mr. QUINN. Yes, sir. But you can see why a man in Jacksonville would refuse to accept a contract of that kind, because he would feel that he would have to go before a committee that was not disinterested, and he would insist upon arbitration before the National Association.

Mr. PURNELL. It has been stated a number of times, both in these hearings and in the previous hearings, that purely speculative transactions are necessary to give liquidity to the market. Does your association share that view?

Mr. QUINN. I can not speak for the association because the association as a body has never taken any action on that, has never expressed itself one way or the other. I can only speak for the members of the association that I come in contact with as to that.

Mr. PURNELL. What is your individual judgment about it?

Mr. QUINN. My individual judgment is that there would not be enough legitimate hedging, that is, hedging of millers and commission men, to make that kind of market, a market that would be broad enough.

Mr. PURNELL. Do you share the view also that without these purely speculative deals the local buyer must deal on a larger margin and thereby offer to the producer a lesser price?

Mr. QUINN. I am absolutely sure of it. That is I mean of course as sure as I can be of anything in this world that has never been tried. But I am as sure as I am of anything that that would be the result.

Mr. PURNELL. Let me ask you this question: Assuming that purely speculative transactions are necessary in order to give liquidity to the market, is it your judgment that the cost of that operation or of those operations is passed on to the consumer?

Mr. QUINN. No; I think the cost is borne by the speculator. The question was asked this morning, and I think Mr. Tincher asked the question of Mr. Wells, that if that is true why is it the speculator remains in business. As a matter of fact he does not. They are coming and going all the time. It is true that occasionally a very acute speculator does make money; there are instances of some that have made money, and of some that have made a million or two million dollars, but in doing that hundreds of others have lost.

Mr. PURNELL. The thing that I am interested in finding out particularly is whether or not the cost of that transaction is passed on to the consumer in the form of an increased price of the product.

Mr. QUINN. No.

Mr. PURNELL. I am also interested in knowing whether or not the cost of the transaction is deducted from the producer?

Mr. QUINN. No.

Mr. PURNELL. You think not?

Mr. QUINN. I think the effect is just to the contrary. I think it adds to the value of the grain to the producer under normal conditions. The great trouble now and the great trouble that brought this bill into existence is the abnormality of the market since the 1st of August, 1914. If we had been living under normal conditions we would not have this hearing on this bill.

The CHAIRMAN. Has your organization any suggestions as to the form of contract or terms of the contract?

Mr. QUINN. No; but we would be glad to submit any, if you ask for them.

The CHAIRMAN. That is a matter that has given us a good deal of thought in the past.

Mr. QUINN. Yes, sir.

The CHAIRMAN. How does it come that it is entirely overlooked now?

Mr. QUINN. It is not overlooked. But Mr. Tincher and some of the other members of the committee seem to have taken umbrage at the mere suggestion that we might do something of that kind, so it is quite obvious I would not bring anything of that kind with me. even if I had it at home.

The CHAIRMAN. The millers are interested in wanting to know what grade is to be offered on their contracts. Aren't they interested in that matter?

Mr. QUINN. Well, we discussed that at the last hearing. That question was brought up, and as I understand it, you want to know why there are so many grades deliverable on contract?

The CHAIRMAN. No; I want to know if the number of grades are to be limited; and if so, what grade, and if in accordance with the official grades of the Federal standards?

Mr. QUINN. The grades are all deliverable at certain prescribed discounts, and my understanding of the reason for having so many grades deliverable was the fact that there was this agitation against corners.

The CHAIRMAN. Was it a fixed or actual commercial difference?

Mr. QUINN. Well, that would probably depend upon conditions. I think the differentials would fluctuate according to the prices and conditions. I do not think you could fix a definite price.

The CHAIRMAN. You would rather leave it to an interested party to fix the difference than a disinterested party; you have more confidence in an interested party than in a disinterested party?

Mr. QUINN. I did not say that.

The CHAIRMAN. That is what it amounts to.

Mr. QUINN. That is not covered in this bill.

The CHAIRMAN. You are pointing out some of the evils, and one of the evils referred to a few years ago——

Mr. QUINN (interposing). That is not one of the evils covered by this bill. You are talking about something else now.

The CHAIRMAN. I am talking about contracts. You said lawyers and business men do not know anything about grain. They do know something about a contract, and they are absolutely interested in having a good contract, and you are overlooking the contract entirely. As you recall, grain was graded and deliverable on the contract; No. 3 corn in Chicago was advanced to No. 2.

Mr. QUINN. Do you mean before the grain-standards act was passed?

The CHAIRMAN. Yes; before the grain standards act.

Mr. QUINN. That is going into old history. The grain-standards act cured that.

The CHAIRMAN. Does the contract state that the grade should be only according to the official grade?

Mr. QUINN. Oh, surely. You can not do business now unless you sell by sample.

The CHAIRMAN. But we were told that Minnesota proposed to fix its own grades, exactly what Chicago did; probably the next move would be that Chicago would withdraw and fix its own grades.

Mr. QUINN. Yes; but the moment that grain goes into interstate commerce it must be graded under the official act.

The CHAIRMAN. Yes; but does it go into interstate commerce?

Mr. QUINN. I can say on behalf of the National Grain Dealers' Association that it was the one that brought about the Federal grain standards act.

The CHAIRMAN. Perhaps you recall, if you were present at the time, the contest at that time was between the miller and the exchanges. The exchanges, of course, objected to any arrangement that would limit them to any number of grades, the millers' contention was that the contract was of no value because of the number of grades that might be deliverable, and also as to the accuracy of the grades.

Mr. QUINN. You know in the old days, 25 years ago, there was no attempt made at uniformity in this country of grain grades. That is to say, No. 2 in Chicago would not necessarily be the same grade as No. 2 in Minneapolis or Omaha, or anywhere else. Now, the Grain Dealers' Association, Mr. Haugen, was the first association that attempted to unify those grades so we would have the same grades all over the country.

The CHAIRMAN. And you approve of that?

Mr. QUINN. Oh, absolutely, absolutely. And I will tell you just exactly what happened. The competition between the various markets became so strong that they did not live up to the grade, the National Grain Dealers' Association uniform grades—the competition between the various markets was so strong at times they did not live up to the grades. That is to say, a market would be getting more grades than they could handle, and the inspection department would take up the grade, or would loosen up on it, until uniformity had been destroyed. Then they solicited the aid of the Department of Agriculture in establishing government standards, because we realized there was only one institution in this country big enough, and that was the Federal Government, to enforce grades. We could not do it by moral suasion. So you see the association has been behind this movement from the beginning. We are not in favor, and never have been in favor, of the grain dealers manipulating to the disadvantage of the millers or anybody else.

The CHAIRMAN. If you are for uniformity, or have been for uniformity in the past, why not have it now?

Mr. QUINN. It is in favor of it; the association is in favor of it.

The CHAIRMAN. Then why not write it in the bill?

Mr. QUINN. In what bill; this bill?

The CHAIRMAN. Any bill, so that you know what is in the contract?

Mr. QUINN. The Grain Dealers' Association have not, in the past, endeavored to initiate legislation.

The CHAIRMAN. Why not specify that it shall be according to the official standards of the United States?

Mr. QUINN. We have never, in our 26 years' history, ever attempted to initiate any legislation.

The CHAIRMAN. But you were very active some years ago in contending for that very thing.

Mr. QUINN. We endeavored first, Mr. Chairman, we tried to get uniformity among the grain men without resort to Congress.

The CHAIRMAN. Do you represent the millers?

Mr. QUINN. No.

The CHAIRMAN. That is a different thing, of course. The miller is entitled to know what quality of grain he is to have delivered, and also that the grade is to be up to the standard. What do you have to say about limiting the number of grades deliverable on a contract?

Mr. QUINN. That is largely determined in the various markets, by conditions in that market.

The CHAIRMAN. You do not believe in uniformity, then?

Mr. QUINN. We have no jurisdiction over the Chicago Board of Trade; the Grain Dealers' Association is a voluntary association of

business men and can not go to the Chicago Board of Trade and tell them what to do.

The CHAIRMAN. No; but you can come to Congress and ask Congress to tell them what to do, and Congress can tell them what to do. Do you want one rule applied to Chicago and one to Minneapolis? I guess we all see there is a wide difference between Chicago and Minneapolis, and if Chicago had the same rules as Minneapolis and others, I do not think the question would ever come up.

Mr. QUINN. If you write such a bill and give it a hearing, then it will probably come up.

Mr. TINCHER. That proposition is in Mr. Haugen's bill and is before the committee.

The CHAIRMAN. We threshed it over for weeks, and that is in the cotton futures act, and now we are writing a bill shall we ignore the most important features of that act? Shall there be no limitation, shall grades be in accordance with the grades established by the Federal Government?

Mr. TINCHER. Do I understand the chairman to say that any bill I introduced repeals anything like that?

The CHAIRMAN. It does not repeal it, but it leaves it out.

Mr. QUINN. Mr. Haugen, you have introduced a bill somewhat similar to this to regulate the exchanges?

The CHAIRMAN. A bill which I introduced has gone along the lines of the cotton futures act. That has been in operation all these years. I simply introduced a bill along the lines of the cotton futures act that has worked to the entire satisfaction——

Mr. QUINN (interposing). Does that bill undertake to regulate option trading, too; is that an option-trading bill?

The CHAIRMAN. Yes.

Mr. QUINN. Then you have incorporated that in an option-trading bill, have you?

The CHAIRMAN. I have, and I believe it of importance. It is to protect the buyer against frauds.

Mr. TINCHER. You spoke about the grain exchange having an arbitration among its members. Is it not a fact that those arbitrations are confined to cash wheat transactions, or cash grain transactions?

Mr. QUINN. Most of them are.

Mr. TINCHER. Well, you do not arbitrate option differences?

Mr. QUINN. No, sir.

Mr. TINCHER. I have often wondered why that was; why you distinguish among yourselves and would arbitrate a difference that came up between members on a matter that came up in a cash transaction, and did not have any regulation for arbitrating matters that come up in option transactions.

Mr. QUINN. Most of them are legal questions; most of them involve large sums of money.

Mr. TINCHER. For instance, I know a man that was a member of the Wichita Board of Trade; bought a membership for the privileges it would give him; he had a contract with a Kansas City member of the exchange, and this man was also a member of the Wichita Board of Trade, as I recall. At any rate, under an agreement they had to arbitrate their differences.

Mr. QUINN. Where?

Mr. TINCHER. At Kansas City, I take it, so the gentleman at Kansas City must have been a member of the Wichita Board of Trade. He had an optional deal with this man's firm at Kansas City. He had a lot of money with them, and they conceived the idea that they could close that deal out, and they did close it out, and it lost him a lot of money. He also had sold them some grain for delivery—some cash grain, and did not like to deliver it because of the loss on the other proposition. They forced him to an arbitration before a commission selected by the board of trade, and when he brought up his option proposition they said, "Oh, we can not arbitrate any option deal; no exchange arbitrates differences growing out of options; we just arbitrate any differences when the actual grain is concerned." And that is tue?

Mr. QUINN. That is true, so far as the National Association is concerned.

Mr. TINCHER. It makes some distinction between the real producer of the grain and the option transaction——

Mr. QUINN (interposing). I think so far as the National Association is concerned, one reason why they have always avoided any option propositions, there is always a lot of money involved, and if you know anything about options, you know it is practically impossible to enforce payments.

Mr. TINCHER. I do not agree with you. I do not think there is any more difficulty involved in an option than in a cash deal.

Mr. QUINN. But I know from experience, because where large amounts are involved, you have the whole State as a police force behind you to enforce the collection, whereas you have nothing here but a voluntary association of grain men.

Mr. TINCHER. You have more than that.

Mr. QUINN. And he may voluntarily sit down and say that his membership in your association is worth that much.

Mr. TINCHER. You have more than that; you have his membership in the board of trade, which is valuable.

Mr. QUINN. I am not speaking of the board of trade; I am speaking of the Grain Dealers' Association.

Mr. TINCHER. I do not know as I understand your logic. As I understand your answer to Mr. Purnell, who is much interested in two classes of people—the one who raises the wheat and the other who consumes it—I understood you that this trading would enhance the price that the producer would get and also reduce the price that the consumer would pay. Did I understand you correctly in that respect?

Mr. QUINN. That question was asked this morning.

Mr. TINCHER. You think that is right?

Mr. QUINN. Yes, sir.

Mr. TINCHER. That has a tendency—that taking out of a profit between the producer and the consumer has a tendency not only to increase the producer's price but to reduce the price to the consumer?

Mr. QUINN. Yes; for this reason, that you do not have any stability otherwise; the amount would necessarily have a wider margin.

Mr. TINCHER. Don't you think, then, we ought to call them philanthropists?

Mr. KINCHELOE. You were speaking of your awards——

Mr. QUINN (interposing). Humor is very funny, but it does not interfere always with the logic of the situation.

Mr. KINCHELOE. The only way you can enforce your award is by dismissal from the association?

Mr. QUINN. Yes; from the Grain Dealers' Association.

Mr. KINCHELOE. You could not enforce an ultra vires contract?

Mr. QUINN. I might say in that connection we have a very interesting case on hand now. One of our members refused to take an award of the arbitration committee; he refused either to pay the award or appeal the case, and I took the matter up with our directors, and they gave him 30 days' time to do one or the other, failing which he would be expelled from the association. I sent him the notice and he went into the courts of Lucas County, Ohio, and got a restraining order restraining us from expelling him. He did that, notwithstanding he signed the agreement of the association, and his name was signed to it, and his signature was there, acknowledged before a notary public, and the other party to the transaction did the same. In other words, he signed his honor to the contract, and now the case is in the courts at Toledo and he is trying to keep from being expelled, and the case will be heard next month.

Mr. KINCHELOE. Do you think you can draw a contract that will deprive a man of his recourse in the courts?

Mr. QUINN. There are lawyers on both sides. Our attorney claims that this man was not driven into the association; he was not forced in, but waived his rights when he did that.

Mr. KINCHELOE. I am admitting all that; but how can a contract of that kind deprive a man of his recourse in the courts?

Mr. QUINN. We can expel him.

Mr. KINCHELOE. Certainly, but the only thing you have to enforce any award is the penalty of expelling him?

Mr. QUINN. We have never made any effort to enforce an award.

Mr. TINCHER. The way you escape the law is this way: A membership on the Chicago Board of Trade is worth how much money?

Mr. QUINN. Six thousand or seven thousand dollars, maybe ten thousand dollars.

Mr. TINCHER. And you can take that away from him; make it without value to him?

Mr. QUINN. Yes; but you see he has no money involved in a membership in the National Association; nothing except his business honor, and he may regard that lightly and tell you to go ahead and expel him. He has asked for an injunction to restrain us from expelling him.

Mr. KINCHELOE. Yes; I see.

The CHAIRMAN. Are there any other questions? If not, we are very grateful to you, Mr. Quinn.

STATEMENT OF MR. N. L. MOFFITT, PRESIDENT MERCHANTS EXCHANGE, ST. LOUIS, MO.

Mr. MOFFITT. Mr. Chairman, may I correct one statement which was made by Mr. Quinn. He said we do not arbitrate future contracts—contracts for future delivery.

Mr. QUINN. I did not say that. I said we did not arbitrate optional contracts. Mr. Tincher evidently got my organization mixed up with boards of trade. It is a national association and takes in various members composing the boards of trade.

Mr. TINCHER. It is pretty well mixed up, but you were mixed up before I got you mixed up.

Mr. MOFFITT. The National Grain Dealers' Association is much different from a grain exchange. It is simply an association of dealers who pay small annual dues, and they do not transact any business, except general business.

But in our exchange we have a rule which practically compels arbitration of all transactions, whether futures or cash. I remember 10 years ago I was president, and a case came up of some future trade, and our attorney said he could not enforce that, and I said "Why not?" He said, "Because it is illegal." I said, "You can't have a man voluntarily to arbitrate?" and he said "Yes." I said, "While we can not enforce this amount, can not we write in an agreement to arbitrate?" And it was written in the contract. So that we arbitrate all differences in futures as well as in cash. Only recently I sat on an arbitration commission that had to do with a future trade.

Mr. TINCHER. Was it cash delivery or an option?

Mr. MOFFITT. It was a contract for future delivery.

Mr. TINCHER. It was not an option?

Mr. MOFFITT. No; we do not trade in options, except puts and calls. A contract for future delivery is not an option; it is a contract. Get that straight. A put and call is an option; a contract for future delivery is a contract; there is no option about it. You sell so much wheat for future delivery, and it is a contract.

Mr. TINCHER. How about that contract which must be filled which is seldom ever filled?

Mr. MOFFITT. It is a contract for which the contractor can enforce the fulfillment of, if he stands on his contract.

But the nature of our business is such, I will say, that a very large percentage of our contracts are not filled by the actual delivery. We have to concede that; but that is due to the nature of the business and not our lack of desire to fill the contracts. I could explain more fully if the committee wants an explanation of that method.

We hedge our trades in the pit, and the grain that is in Kansas or Nebraska or Illinois, or even in the South—even grain in the South is hedged in the St. Louis market—and there is hardly any idea on the part of the people that have the actual grain at the time they hedge it, to deliver it. They do not propose to deliver. They have a temporary hedge; they use it. They contract for a hedge, and that is legitimate, we think.

Now, in regard to speculation. I started in my business career as a clerk in an elevator, and worked there for a couple of years, and then I took a position in a grain house—a grain-brokerage house—and have been in that house ever since. That was in 1882.

Mr. TINCHER. That is lighter work than the elevator?

Mr. MOFFITT. I do not know about that. I was a clerk in the elevator, and I am working a lot harder now. I think I am working

harder now than I worked in 10 or 15 years, with my official duties, and my troubles in the grain trade.

We have had some experience recently in Missouri. A bill was introduced in the State legislature against trading in futures. I went to the State capital to discuss the bill before the committee, and we took several members there, and Kansas City sent a few, and a few millers were there, and we discussed the bill and were all opposed to it, and there was nobody in favor of the bill. In Missouri this was, and it was advertised; it was announced there was to be this hearing. So I have reason to believe that Missouri is not anxious to pass a bill like this. The committee heard our argument, and that was the end of it. It was killed.

Mr. JONES. Was it a similar bill to this one?

Mr. MOFFITT. It was worse than this one. The kind-hearted gentleman that wrote the bill, he proposed to send us to the penitentiary for 20 years if we made a grain contract; only for 20 years. I do not think there would have been any danger of any of us making a grain contract. That applied to any sort of future delivery. It did not meet with any favor in our State, so far as I could learn.

Mr. HAYS. May I ask the relativity between this one and that one; would not this one have passed?

Mr. MOFFITT. As the President said to Mr. Einstein, it is too deep for me.

But I think it is relevant for me to say that Missouri is not demanding any legislation of this kind.

They did have a bill recommended by the committee of 17 which provided for an open market in Missouri; but the only way it affects us was to provide for a rebate. That is the only bill that passed affecting grain exchanges in the State of Missouri.

I feel, gentlemen, that it is not the purpose of this committee to destroy the exchanges or the trading in futures, or destroy the hedging value of our markets, and in order not to do this I am going to argue in favor of expanding this provision in section 4, A and B. Mr. Tincher, I think, asked Mr. Quinn how that could be done. I did not think how it might be done until he asked Mr. Quinn that question. I have not given much consideration to it, but it seems to me that it should read something like this: "Persons who are at the time of making the contract a member of an exchange in a contract market."

Mr. JONES. What paragraph and page is that?

Mr. MOFFITT. Section 4 (b). I insert in there, "A member of an exchange in a contract market." That would include all the members. My idea about that is that the person who would put in $1,000 to $10,000 in a membership in an exchange and pay his dues, that he would soon become interested enough in a grain trade to become a qualified trader in the future.

Mr. TINCHER. I do not think that the way my bill is worded now that it would exclude a grain trader from a contract market.

Mr. MOFFITT. I am glad to hear you say that. I wanted to be clear on that.

Mr. TINCHER. I would not want to say that he would have to be a member of an exchange, but I am sure——

Mr. MOFFITT (interposing). I think you mentioned the name of our exchange. It is a merchants' exchange and not a board of trade.

Our exchange was originally organized in the manner of what we have now as a chamber of commerce. At the time I joined there were about 3,600 members, made up of all classes of business men, and they built a magnificent house to house the organization, but as the city grew, and each business grew, they gradually pulled away and organized their own exchanges, like the real-estate exchange, and the grocery exchange, and other exchanges, and left us with the building on our hands, and it is nothing now but a grain exchange; nobody there but grain dealers. I mean, no business but the business of grain dealers; but there are some two or three hundred men still belong who are not in the grain business.

Mr. TINCHER. My objection to your language is that it would be limited to such members as would be trading in grain. I would not want to do that at all.

Mr. MOFFITT. You think, then, that a man who is a member of our exchange would be a qualified trader?

Mr. TINCHER. Yes.

Mr. TEN EYCK. He would not pay that much money if he was not in the business, would he?

Mr. MOFFITT. We reduced that membership. The membership has dropped from 3,600 to 800.

Mr. JONES. Do you think that trading in futures stabilizes the grain market?

Mr. MOFFITT. I certainly do.

Mr. JONES. Don't you think that the market is ultimately governed by the old law of supply and demand?

Mr. MOFFITT. Yes, sir.

Mr. JONES. The reason you think it stabilizes the market is by reason of the additional information that is disseminated?

Mr. MOFFITT. That is one thing and the speculative buying power that comes in to support the market at times when there would be no legitimate demand. Take, for instance—there is corn gathered in the centers to the extent of 35,000,000 or 40,000,000 bushels. If there was no demand for corn, and the corn sank to what we call a carrying charge on the futures. So the speculator took May and bought July corn, and to-day he is buying July corn. He is supporting the market to-day, the speculator is.

Mr. JONES. Now, could not the speculator act and trade just as well on cash corn, that is, corn for future delivery, and it would be natural for you to eliminate the speculator or the dealer in options? Wouldn't you still have the same opportunity for a man who had the money to actually buy the corn and hold it until such time as there would be a demand for it?

Mr. MOFFITT. Oh, I dare say you could do that, but there would be few men who would be tempted to do that.

Mr. JONES. The market is stabilized more largely by the more accurate information that a man has?

Mr. MOFFITT. And acting on that information.

Mr. JONES. If some plan were devised whereby full information was always available to every one as to the demand and the supply, and the markets, would there not be just as much money available for carrying the actual corn as there would be for speculating on the market?

Mr. MOFFITT. I do not think so. I will tell you, if you insist, how the corn is carried. The corn comes into the market and is sold on the market. Now, who buys that corn? It is an elevator man, as a rule, under present conditions. He stores it in his elevator. He goes into the pit and sells May or July corn against it. Now, there must be somebody to take care of that July corn, and who does it? The speculator.

Mr. JONES. Couldn't he take care of it by the actual delivery of the corn at a future time?

Mr. MOFFITT. Yes——

Mr. JONES (interposing). He does not pay for the corn?

Mr. MOFFITT. Oh, no; the elevator man pays for the corn and carries it. He goes to the bank and borrows the money to carry the corn. That is his business; he is in that business.

Mr. JONES. Why couldn't the man who wants to use his money by way of speculation buy the corn for delivery at a future date and pay the elevator man to carry it, and thus eliminate speculation?

Mr. MOFFITT. What do you mean by future delivery?

Mr. JONES. My terms were incorrect—but pay the elevator man for carrying it and buy such corn as is actually in existence?

Mr. MOFFITT. That is what he does.

Mr. JONES. No; they buy and sell these options over and over again.

Mr. MOFFITT. Let me tell you how it looks to me. Suppose you had a corporation with a $1,000,000 capital, and out on the stock market would be certificates of stock. Somebody would go in and buy that stock, wouldn't they?

Mr. JONES. Yes.

Mr. MOFFITT. And the man that bought it might sell it again, and keep on buying and selling that stock. Suppose an elevator man had a million bushels of corn in his house. He would sell a million bushels of May or July corn against it. Now, those contracts are outstanding in the pit. This elevator man has paid for this corn. He has probably gone to the bank and borrowed the money and paid for it, but he has the contract hedged against it.

Now, let me tell you another thing about him handling it that way. I might say, as well as being a grain dealer, I am in the banking business as well. I am on the committee that loans the money; what we call discounting; loaned all the money. We have $40,000,000 or $50,000,000 loaned. This man would come to our bank to borrow money. The first question he would ask would be for the money, and the first question I would ask would be, "Does he hedge his grain?" He wanted, say, $200,000 or $300,000. "Does he hedge his grain?" is the first question they will ask him. And they look to me to see that the grain interests are cared for. And I would say, "Yes; of course he hedges his grain," and that enhances his credit immediately with the bank; we will give him all the money he wants. But if he did not hedge his grain he would not have the borrowing power that a man that did hedge would have; he would not have the confidence of the bank.

Those contracts, I say, are out. The professional speculators that are speculating handle naturally the greatest volume.

Mr. HAYS. Do I understand you to say that the time when there is a surplus of corn that speculators more or less stabilize the market?

Mr. MOFFITT. Yes, sir.

Mr. HAYS. They stabilize the market?

Mr. MOFFITT. They step in and buy the contracts.

Mr. HAYS. In other words, they put off for a certain length of time a drop in the market by purchasing and stabilizing; is that so?

Mr. MOFFITT. Yes; that is what I think.

Mr. HAYS. Now, if that is done and we have another good, large crop, or later on it becomes apparent that there is a larger surplus of corn than one imagined, and these same speculators should change their minds and become bears in the corn market, would they then stabilize it?

Mr. MOFFITT. They would then——

Mr. HAYS (interposing). What would you call them then; stablizers?

Mr. MOFFITT. No; they would sell out and the market would decline.

Mr. HAYS. Is that stabilizing it?

Mr. MOFFITT. No; not under those conditions.

Mr. HAYS. That would be unstabilizing it?

Mr. MOFFITT. No; if the conditions were such that the grain ought to go down, it would go down regardless of whether you trade in the futures or not.

Mr. HAYS. But according to your previous answer they have only put off temporarily the lowering of the market by buying a supply, and had carried it into the future until they had discovered a larger crop or a surplus.

Mr. MOFFITT. No; you assume that the conditions get more bearish?

Mr. HAYS. Yes.

Mr. MOFFITT. Suppose they do not get more bearish, but they carry it until the demand does spring up, and then the demand takes care of it.

Mr. HAYS. Yes; but the question I am trying to bring out is whether this speculator, or stabilizer, as you call him, carries over that slump to a time when he may change his mind, and it may be larger in proportion than if it had come at a time when there was really——

Mr. MOFFITT (interposing). In a case of that kind the decline would be inevitable if the conditions were such that prices would be coming down. But in the meantime the farmer would have a chance to sell his grain for this larger price, and the decline would be gradual.

Mr. HAYS. What I am trying to get at is whether the benefit is perpetual or only temporary?

Mr. MOFFITT. It could not be perpetual, because there are conditions whereby a buyer for future delivery sells at a loss, if that is what you mean.

Mr. HAYS. I do not mean perpetual for all time, but for a reasonable time.

Mr. MOFFITT. It is a stabilizer, I think, for 11 months out of 12. There may be conditions arising where the speculator finds that the load is too heavy for him, and he may have to sell out at a decline, but in the meantime he stabilized it and gave the farmer a chance which he would not have had.

Mr. KINCHELOE. Would not his selling out contribute to the unstabilizing of it?

Mr. MOFFITT. He would be doing something three or four months later that would have come earlier if he had not been in there.

Mr. KINCHELOE. According to your idea, he would be stabilizing as long as the market came up?

Mr. MOFFITT. Yes, sir.

Mr. KINCHELOE. But if it happened to go down, then their throwing that extra amount of corn on the market would have a tendency to make it go down?

Mr. JONES. All at once.

Mr. KINCHELOE. Yes; that is what I say.

Mr. MOFFITT. But he would not sell it all at once. He would be selling all that came in during months, which had been sold by the farmer at a fair price.

Mr. KINCHELOE. He would be adding influence to a bearish market.

Mr. MOFFITT. What he would do would have happened three or four months before if he had not been in the market. And in the meantime the farmer would have had the benefit of his buying.

Mr. TINCHER. You say you are on the discount board?

Mr. MOFFITT. Yes.

Mr. TINCHER. I want to talk to you about that a little.

Mr. MOFFITT. Yes, sir.

Mr. TINCHER. We do not want to do anything by way of legislation that will disturb economic conditions. If a man goes to your bank to borrow money, and has the grain in an elevator, he also files a property statement with your board?

Mr. MOFFITT. Oh, certainly; yes.

Mr. TINCHER. And he offers this grain, I suppose, as security?

Mr. MOFFITT. A warehouse receipt, he gives us.

Mr. TINCHER. Gives what amounts to a mortgage on the grain?

Mr. MOFFITT. A warehouse receipt, yes, sir.

Mr. TINCHER. That amounts to a lien on the grain?

Mr. MOFFITT. Yes.

Mr. TINCHER. He turns it over to you?

Mr. MOFFITT. Yes, sir.

Mr. TINCHER. It is based on that; based on his property statement and the fact that he has sold an option to sell that grain later on that you loan him the money?

Mr. MOFFITT. Yes; we loan him close up to the market.

Mr. TINCHER. You think that the fact that he had not sold the option and was himself carrying the risk on the decrease would probably have a tendency in your bank to curtail his credit?

Mr. MOFFITT. Not only in our bank, but in any bank; it would be like a man——

Mr. TINCHER (interposing). I have to differ with you on that. I know a little about discount boards in banks, and I know banks where they consider future trading on options so dangerous that they do not loan any money where they gamble on the board of trade.

Mr. MOFFITT. Mr. Tincher, a man that hedges his grain does not gamble; it is the men that do not hedge that gamble.

Mr. TINCHER. Suppose this man that wants to borrow the money, if you know that he has sold on the board of trade four times as

much grain as he has in the elevator, does that enhance his credit with you?

Mr. MOFFITT. Of course, that is a question. We do not know that he has sold four times as much.

Mr. TINCHER. Suppose you do know it. Now, you are a practical grain man and a practical banker; suppose he has sold four times as much?

Mr. MOFFITT. If we knew he had sold four times——

Mr. TINCHER (interposing). Just answer my question. Suppose you knew he had sold four times as much grain as he had in his elevator?

Mr. MOFFITT. If he had the money to take care of his trades——

Mr. TINCHER (interposing). You would loan him the money if he had money to take care of his trade?

Mr. MOFFITT. That is a part of the consideration to go into the question.

Mr. TINCHER. I think my question is important in this: It gives the committee some idea as to whether a real trader in the market, a man that sells four times as much as he has, has a tendency to stabilize the market.

Mr. MOFFITT. I think that is a very unusual condition. The usual elevator man does not speculate much.

Mr. TINCHER. If he does, he does not last long, does he?

Mr. MOFFITT. No; he has so much stuff hedged, that has to be his limit. He does not go much deeper than that. They are usually men who have property and means; they are not reckless men, but sound business men, as a rule.

Mr. TINCHER. I am not trying to destroy the hedging in this legislation.

Mr. MOFFITT. Let me talk about this a minute: A request came from Arkansas to loan a lot of money on some rice. It had been selling at 15 cents a pound, and it dropped to 5 cents a pound, and there was no speculation in rice, and strange to say, it went down, notwithstanding the fact there was no speculation. We inquired, "What is the rice worth?" They said, "We do not know what it is worth; we can not get a market on it; we can not get a bid." "Can you get 4 cents a pound?" "We do not know; it is not moving now; we do not know what it is worth." Now, that could not happen in the corn market. That fellow did not get any money. We won't loan much money on an unlisted stock that nobody knows the value on. We would not loan money on the rice. If they had future trading on rice and contracts out on the rice, there would not have been any trouble borrowing all the money he wanted.

Mr. TINCHER. There would have been a little trouble if the man's property statement happened to come in in August, 1919; there might be this trouble, that wheat went off a dollar a bushel, and somebody had to take that loss, but by this insurance proposition nobody had to take it but the producer of the wheat.

Mr. MOFFITT. You mean this recent drop?

Mr. TINCHER. Yes.

Mr. MOFFITT. I am free to say that the grain interests are in good condition; the grain interests are giving the banks less trouble right now than any other interests I know of in the country. Most of these

commodities do not fluctuate; when they start down you have a perpendicular drop of 20 or 30 or 40 per cent, with no chance whatever to hedge or to sell and get out, and they are dangerous propositions.

I might cite one thing: In St. Louis we developed the greatest fur market in the world. After the war started fur went up 500 or 600 per cent on the market. Furs selling for 50 cents were selling then for $5—certain furs. About a year ago the market started down. You could not sell them at any price. That could not happen in the corn market. In the grain trade you have a gradual decline; there are opportunities given to unload your grain if the market declines, and that difference is in the grain trade; the grain trade to-day is in better condition than any other line of business I know anything about.

Mr. TINCHER. The trade may be all right but the man that is producing it is not.

Mr. MOFFITT. Let us see about the producer. The wheat started in 1914—from 85 cents, when the war broke out, it went to 250 or 300 cents, or $2.50 or $3 a bushel. It was stabilized last year, of course, by the Government, and it stayed around $2.20 a bushel. This year the conditions were different, and the Government withdrew its support, and the market is going back gradually on account of legitimate conditions, and I think going back to where it started from; and I believe—not because I have any grudge against the farmer—but I believe wheat will go back to a dollar, and that will be the normal price for wheat.

Mr. WILLIAMS. Do you think $1 a bushel is a normal price for wheat when harness is costing $100 a set?

Mr. MOFFITT. Two or three years from now harness will not be $100 a set.

Mr. TINCHER. Harness is costing as much as it was.

Mr. MOFFITT. Let me tell you—I do not know whether I am talking about the bill or not, but when the war broke out grain jumped at once——

Mr. JONES (interposing). That was largely due to the demand in foreign countries where production ceased.

Mr. MOFFITT. It did not cease as soon as the war started.

I am showing the effect of what did happen. Speculation grasped the situation and put the price up immediately, as soon as the war started. And other commodities it took two or three years to start to go up—most other commodities. Now, on the decline, grain is leading again, for some reason—leading the decline.

Mr. JONES. Let me ask you another question about the proposition we had up before; I did not quite finish it a while ago. Do you think that, under the guise of hedging, a purchaser of grain, for instance, should be permitted to sell four times as much as he buys? In other words, hedge four times as much as he purchases?

Mr. MOFFITT. That is not a common practice.

Mr. JONES. Whether it is a common practice or not, don't you think it would be sufficient to permit him to hedge the exact amount of grain purchased; would not that protect him?

Mr. MOFFITT. That would protect him in that particular trade. But the custom of selling short—that is what you mean, I think?

Mr. JONES. Yes.

Mr. MOFFITT. You want to know whether we should permit people to sell short?

Mr. JONES. In any considerable quantity, yes.

Mr. MOFFITT. I think so, because that helps to make a stable market. It helps the buyer to supply his wants when holders of grain were not selling, and it makes a liquid market.

Mr. JONES. Well, do you——

Mr. MOFFITT (interposing). Let me continue. The volume of short selling in proportion to the amount of the speculative buying, I would say it is not more than one in five, so I would say five bushels of stabilizing buying brought into the market, where there is one selling short.

Mr. JONES. I noticed last year somebody said—I do not know who he was—that there was some 15,000,000,000 or 20,000,000,000 bushels handled on the Chicago Board of Trade in options, whereas there were only some 300,000,000 or 400,000,000 bushels of actual grain shipped there; and more options sold on the Chicago Board of Trade than all the grain actually in the world.

Mr. MOFFITT. More contracts; yes, sir. That might be explained this way: In the Chicago pit there are a great many scalpers who buy and sell these contracts continuously during the day. They trade a large volume of contracts.

Mr. JONES. Do you think that helps?

Mr. MOFFITT. I think it does. It enables the farmer to trade, or whoever has grain, to buy and sell grain at any time of the day. The volume of trade in our market last year was 318,000,000 bushels, and we handled 94,000,000 bushels of actual grain.

Now, most of the hedging in the St. Louis market is forced into Chicago, because our volume of trade at times is not great enough to take care of the operators that would naturally come into our market. For instance, you had a line of stuff to sell in St. Louis, accumulated wheat or oats, and the pressure on that grain would force our market down out of line under Chicago, force it a cent or a half cent a bushel under Chicago, you might then, as a merchant, turn and send your hedges to Chicago, and that is what happens frequently.

Mr. JONES. You think this tossing it back and forth during the day helps the market?

Mr. MOFFITT. Oh, yes.

Mr. JONES. Don't you think the market would be the same without the scalpers you speak of?

Mr. MOFFITT. No; without scalpers you might have to press prices up or down ½ cent to fill an order. This is an advantage.

Mr. WILLIAMS. Your idea then is, Mr. Moffitt, that speculation in grain helps the farmer?

Mr. MOFFITT. Yes; because it makes a continuous market.

Mr. WILLIAMS. What effect does it have on the consumer?

Mr. MOFFITT. If I say that it gives the farmer a better market for his grain, naturally you would say that the consumer pays more?

Mr. WILLIAMS. Yes.

Mr. MOFFITT. That is a fact, if it were not for the fact that the speculative trade enables the farmer to get his grain to the market.

Mr. WILLIAMS. You do not claim it helps both the farmer and the consumer?

Mr. MOFFITT. Yes; by stabilizing the market.

Mr. WILLIAMS. It gives the farmer more, and the consumer, it enables him to buy it for less?

Mr. MOFFITT. Yes; because he can ship with very little cost.

Mr. WILLIAMS. That may be so, but it is awfully hard for me to understand.

Mr. MOFFITT. Suppose under a system of handling grain there is a cost of 10 per cent between the miller and the farmer, and under our system it costs 2 per cent, would there not be a saving there? That is what happens.

Mr. WILLIAMS. If it gives the farmer a higher price for his product, it necessarily follows that the consumer pays a higher price for the finished product.

Mr. MOFFITT. Yes; if it was not for the saving in handling.

Mr. WILLIAMS. If it was not for the speculators between?

Mr. MOFFITT. Yes. They do not do that intentionally but they do practically that for both. They do give a steady, continuous market. They work this way: A farmer has his wheat and sells to the local grain dealer in the country. The grain dealer gets a bid over night from the merchant in the city—the elevator man in the city, and that bid, predicated on the future market, is right close to the market—right flat up to the market; in other words, he handles that wheat on a very narrow margin, because he is able to step into the pit and hedge on it. Suppose he did not have that hedging facility, instead of paying that amount, he would bid under the market. He would say, "I have got to have a wider margin to handle it on."

On the other hand, the miller gets a bid for a lot of flour. He can step into the pit and hedge for the grain, and he can sell closer. And that is what happens.

Take the exporter. The exporter comes in with a bid for a lot of grain, and the grain is not on hand. Some man will sell it to him, probably for the next month's shipment, and will go and hedge it in the pit. Then they have to go out in the country to fill their contracts, and they do it on a very narrow margin of profit on account of these facilities.

Mr. WILLIAMS. Yes; Mr. Wells emphasized that this morning, I think, in his statement.

Mr. MOFFITT. That explains why we serve both ends, to their benefit. If you put grain on a merchandising basis, instead of it costing 1 per cent it would cost 8 or 10 per cent to handle it.

Now, let me tell you about the speculator. He insures this, I think Mr. Wells says, at his own expense, because in the aggregate the speculator does not take any money out of the market.

I was discussing the bills in Jefferson City with a member of the committee of 17. I want to give this committee a view of what the committee of 17 proposes to do if they get control. This was given to me by Mr. Hirth. Mr. Hirth did not give it to me in confidence, because he knew I was against him and naturally he would not tell me anything in confidence. His vision of this farmers' cooperative

marketing system would be to gradually get control of all the wheat produced, every bushel of the wheat produced in the country. "Then," he says, "what will we do? Then we will be in shape to fix the price to the consumer, and we will fix the price to the consumer." "Well," I said, "you can fix it in line with the world prices?" "Well," he said, "we aim, in order to establish a better price in the United States and elsewhere, to have a tariff of 20 or 30 or 40 cents a bushel, which will protect us in our price fixing." He likened the scheme to the Steel Trust. He says, "There is the Steel Trust, for instance. They produce a large part of the steel produced in the country. They sell their surplus steel abroad at a discount, at the world level of prices." And he says, "That is what we are going to do; we are going to sell the surplus wheat of this country to Europe and abroad at the world level, and we will fix the price to the consumer at as high a level as we can with the protection of a protective tariff." That is the scheme that Mr. Hirth has in mind.

Mr. WILLIAMS. Do you not think, Mr. Moffitt, that the farmers ought at least to have something to say about the price they receive for their products, or ought these prices to be fixed by other people entirely?

Mr. MOFFITT. How would you suggest that they fix their price?

Mr. WILLIAMS. You are talking about this cooperative selling that this member of the committee of 17 suggested in his conversation with you.

Mr. MOFFITT. Well, we have no quarrel with the cooperative marketing system. We think they have a right to cooperate and to organize. We would even be glad to have them join our exchanges.

Mr. WILLIAMS. Under the present system of marketing, what has the farmer got to say about the price he receives for any of his products? Is he not absolutely helpless?

Mr. MOFFITT. That is a hard question for me to answer.

Mr. WILLIAMS. It is, I think, pertinent to this discussion.

Mr. MOFFITT. I do not think anybody in particular has anything to say about the price. I have not discovered that anybody is strong enough or important enough, any element in the trade, to determine what price grain shall sell at. Wheat, for instance, is a world product, and the prices are fixed by world conditions, and I do not think anybody especially has anything to say about what the price should be to any great extent. That is something that develops out of conditions.

Mr. KINCHELOE. Everything the farmer buys he must buy in a price-fixed market, must he not?

Mr. MOFFITT. His manufactured articles?

Mr. KINCHELOE. Yes.

Mr. MOFFITT. Well, they fluctuate, too. The price of farm machinery fluctuates and everything else, according to the papers.

Mr. KINCHELOE. It is not going down anything like in proportion to what the products of the farm have gone down.

Mr. MOFFITT. I think that will be more gradual, but they will come down on a level with other commodities.

Mr. KINCHELOE. You take a pair of shoes to-day. You pay $12 for a pair of shoes. There is not a dollar's worth of leather in there. Do you think there is no price fixing there?

Mr. MOFFITT. Well, I rode up to Chicago about a week ago with one of the biggest shoe manufacturers in St. Louis, and he told me that a shoe that was costing them $6 about a year ago is costing them $3 now. That is, the factory. I said, "Well, we are not getting the benefit." He said the retailer was making us pay the high prices.

Mr. KINCHELOE. He thinks the retailers are doing all of it, does he?

Mr. MOFFITT. He says he is selling them that much cheaper, and I think the retailer must be the man at fault. But those things regulate themselves.

Mr. WILLIAMS. If that time is long enough, there will not be any farming industry left. The farmers are paying for twine, for cultivators, for wagons, for harness, for all implements war prices, and they are getting prewar prices for everything they sell.

Mr. MOFFITT. I think it is an unfortunate condition for the farmer.

Mr. WILLIAMS. Well, it is.

Mr. MOFFITT. But I really do not see any remedy for it. I do not think your bill would remedy it. Do you?

Mr. WILLIAMS. Well, I do not know; but of course it is inconceivable that the farmers will continue indefinitely to produce at a loss, which they have been doing the last year.

Mr. MOFFITT. I do not see any remedy for that, except that naturally conditions will work themselves out in due time.

Mr. KINCHELOE. Do you not think the inevitable result is going to be, if there is not a change, if the farmer can not buy his stuff cheaper, there is going to be a great curtailing of production of crops in this country?

Mr. MOFFITT. That would be the natural result. In the South they are figuring on curtailing the production of cotton this year, so as to bring about an adjustment of the price. That is the plan in the South, I think, and I think it will work out as you say, that the farmer naturally will reduce his acreage if he does not get the price for his stuff.

Mr. KINCHELOE. Do you not think that this farmers' bureau organization, with the program they have in mind, if they succeed in controlling their own products and storing them until the proper time to sell them—do you not think that is going to solve this proposition, so far as the farmer is concerned?

Mr. MOFFITT. In the case of wheat he would still have to meet the world level of prices, I think. There is wheat raised in Argentina and in Canada, and he would have to meet that level of prices.

Mr. KINCHELOE. Do you think there is enough wheat imported into this country to feed the people?

Mr. MOFFITT. Oh, no.

Mr. KINCHELOE. You say he would have to meet the world's market?

Mr. MOFFITT. There is very little imported.

Mr. KINCHELOE. But will there not be a differential in freight rates against the imported wheat?

Mr. MOFFITT. No. Mr. Barnes the other day told us they could ship corn from Argentina, from Buenos Aires, to New York cheaper than they could ship it from Illinois to New York.

Mr. KINCHELOE. Well, they can ship it cheaper to seaboard points. Probably that is true.

Mr. MOFFITT. And some distance inland, cheaper than the farmer in the West can ship it. I think he is right about that, too.

Mr. KINCHELOE. Of course, if I understand the scheme of this Farm Bureau—and I think I do—it is not only to control wheat, it is to control all production, and that is only the common-sense way for them to go at it.

Mr. MOFFITT. But, gentlemen, if they are going to do that the argument we put up is that the process is not to destroy the machinery we have by legislation before they have completed their organization. If they can produce a better method of handling their grain than we have, a cheaper method, there is no objection to their doing it. But there is objection to their stepping in and trying to break down the present system before they have demonstrated that they can produce a better system.

Mr. TINCHER. How would you demonstrate that you have a better system without trying it?

Mr. MOFFITT. Well, they are making an effort.

Mr. TINCHER. Do you agree with the young representative of the grain exchange that testified before the committee last year, who stated to the committee that the grain exchanges thrived upon fluctuations and that he personally did not want any system that would prevent the fluctuation?

Mr. MOFFITT. Well, I think if he had said that speculation thrives on fluctuations I would agree with him—if that is what he meant. Speculation naturally thrives on fluctuation. Yes; I would say that.

Mr. TINCHER. This young man, I thought, gave us his real feelings in the matter, and he very ardently supported the system that would protect fluctuations.

Mr. MOFFITT. If the price is fixed, in other words, there will be no speculation, if that is what he meant. I think that is what he referred to.

Mr. TINCHER. Do you distinguish between fluctuation and instability?

Mr. MOFFITT. I do not know just what you mean.

Mr. TINCHER. I think I can make you understand what I mean. An ordinary farmer out in the country hauls 80 bushels of wheat to market in a day. The markets are so manipulated to-day that one Monday morning you take in a load of wheat and you will get so much a bushel for it. The next Monday morning, perhaps, you will go in and get 10 cents a bushel less. There is no change in the price of the commodity, the wheat, which accounts for a difference of $8 on that load of wheat, and with the 75,000,000 bushels of wheat produced in my district it makes a considerable difference in the course of a year if half the men are subject to that kind of fluctuation, which all the trade, as I understand it, admit there is no justification for.

Mr. MOFFITT. Well, under normal conditions there is no such fluctuation. Working out of the war period, there have been violent fluctuations. We will admit that. But I have been in the trade year after year when the total fluctuations during the year were not over 10 or 15 cents a bushel during the 12 months, and we are working back to those conditions again. You must not judge the business by the abnormal conditions that have prevailed in the last six or eight months.

Mr. TINCHER. Well, three days after they started to gamble in wheat futures, following that period that Mr. Wells so ably described as the only really satisfactory period in the whole history of this country—between the time the Grain Corporation let loose and the grain gamblers began—three days after they began the market fluctuated 19 cents, as I remember it, and sometimes it got so it would fluctuate 10 or 15 or 20 cents a day up and down. Now, the threshing was practically over, the world's supply of wheat was available and the world's demand for wheat was known. What excuse was there for taking that off the man that produced the wheat just because he was marketing it, except this vicious system of gambling in his product?

Mr. MOFFITT. Immediately after they opened up trading in futures there was no interest in the market whatever, and probably for the first week or two there was almost no open interest. The traders were trying to get a line on what the real values were.

Mr. TINCHER. I have not looked at the wheat market lately, but when we were having these hearings before the traders were keeping the option below the cash. Is the option below the cash now?

Mr. MOFFITT. Yes; May is selling under cash now.

Mr. TINCHER. That is a fine situation, is it not, when future wheat is selling for less than cash wheat?

Mr. MOFFITT. Well, it is not the usual situation.

Mr. TINCHER. Do you think an outfit that is handling the market so that they have get future deliveries below the actual cash price of the product to-day can claim they are stabilizing the market?

Mr. MOFFITT. In corn and oats the futures are selling at considerable premiums over the cash.

Mr. TINCHER. The future ought to sell over the cash, ought it not?

Mr. MOFFITT. It ought to under normal conditions, and it does.

Mr. TINCHER. But these people that have got this wheat are manipulating the thing now so that the price offered for future delivery is considerably less than the price offered for delivery to-day. There is nothing wrong with that fellow out there, except that he has got to sell his wheat, which cost him about $2.25 to produce, for something less than a dollar a bushel.

Mr. MOFFITT. I would like to talk about manipulation now. You have talked a good deal about it. In our market we have rules against manipulation of the market, and the only kind of manipulation that ever worries us in St. Louis is upward manipulation—bullish manipulation.

Mr. TINCHER. I understand. The Kansas farmer does not worry about that.

Mr. MOFFITT. There is no such manipulation in our market as a downward manipulation that I ever heard of.

Mr. TINCHER. If you will go out in my country you will hear them talking about that more than in St. Louis.

Mr. MOFFITT. We do not have any such condition in our market, and I do not think any market does.

Mr. TINCHER. Can you say that when a future is selling to-day for less than the cash that is not due entirely to manipulation?

Mr. MOFFITT. Well, just what it is due to I am not prepared to say, except that they are expecting that wheat will be worth less in the

future. You seem to forget that the wheat raised in the countries in the Southern Hemisphere has some bearing on the price.

Mr. TINCHER. Well, they have all finished their thrashing now, I understand.

Mr. MOFFITT. But they are offering more freely now, and as we approach the harvest the demand lessens for wheat and the prices usually go down. Of course, as I say, it is an anbormal condition for May wheat to sell under cash at this time of the year.

Mr. TINCHER. Very abnormal.

Mr. MOFFITT. Very abnormal; yes, sir. It is very unusual for it to do that.

Mr. TINCHER. Now, if it is right for you to have rules in your board of trade against manipulation—and of course your board of trade has jurisdiction only of the St. Louis board—it would be right for the Nation to have a law against manipulation, would it not?

Mr. MOFFITT. It depends upon what you call manipulation. I do not know just what you mean.

Mr. TINCHER. How does that rule read?

Mr. MOFFITT. Well, it prohibits corners.

Mr. TINCHER. The rule you have got to prohibit corners is to prevent a manipulation that will raise the price?

Mr. MOFFITT. To prevent a corner in the market.

Mr. TINCHER. Now, do you think there will be anything wrong with the great consuming and producing public and the nation having a rule in their book that would prevent a manipulation that would depress the price, as it is depressed to-day?

Mr. MOFFITT. Well, we have no such condition.

Mr. TINCHER. You make your own laws that will protect yourselves down there. Don't you think the nation ought to make laws that would protect its people?

Mr. MOFFITT. Provided they are wise laws. You certainly do not want to break down a system of trading that has been in operation for many years just on a theory.

Mr. TINCHER. I do not want to break down any market, but that has only operated for one class of people. Do you not think that a system that has regulations that protect only one class of people—that is, the speculator, the trader—and do not protect the other—don't you think it is time that the rules be modified by law so that they will afford some protection to the other class?

Mr. MOFFITT. Our rules protect all alike; they do not discriminate in favor of any class. And there is no system of trading or handling of commodities that affords as much protection to the producer and to the consumer, in my opinion, as the exchanges. There is no institution that handles the stuff as economically and as safely as the grain exchanges of the country. Did you ever hear of a shipper losing any money shipping in wheat to a grain house, a board-of-trade house, not getting paid for his wheat? Did you ever hear of anything like that?

Mr. TINCHER. Why, no. There is no chance for them to lose. They can afford to pay for what they get. They have got a moral cinch. They do not take any chances.

Mr. MOFFITT. Well, here is a receiving house that handles the wheat for 1 per cent. What kind of a cinch has he got? He goes out and solicits that shipment, and pays the expenses, pays the

drafts, and all those things. What cinch has that man got? He has not got any big thing, has he? He gets $10 or $15 for handling a car.

Mr. TINCHER. He has not got a big thing, but he has got a sure thing.

Mr. MOFFITT. And sometimes a fellow overdraws; and he does not get all his money back. That happens often.

Mr. TINCHER. Well, if there is any law to protect the commission merchant against overdrafts, I will be for that.

Mr. KINCHELOE. Before you leave this part of the subject I would like to ask you one question, to see if I understand your position. Do you think that the manipulator in grain, who never owned any grain in his life and never will and has but very little money in it, should continue to operate on the grain markets of the country?

Mr. MOFFITT. I do not know just whom you class as a manipulator.

Mr. KINCHELOE. I am talking about a manipulator in grain, a man who buys futures and never buys any actual wheat, a gambler——

Mr. MOFFITT. You mean just a speculator. Do not class us as gamblers; call us speculators.

Mr. KINCHELOE. I do not know whether you are in that class or not. I am talking about a manipulator, one who manipulates the price of wheat, who never owned a bushel of wheat in his life, who just simply figures on futures. Do you think that fellow ought to continue to operate?

Mr. MOFFITT. Why, that is just what I do.

Mr. KINCHELOE. Do you think that kind of thing helps the farmer?

Mr. MOFFITT. Certainly; the kind of trading I do naturally helps the farmer.

Mr. KINCHELOE. So you think the operations of that fellow that you regard as the last word in efficiency and perfection——

Mr. MOFFITT. I think he is helpful to the farmer.

Mr. KINCHELOE. And you think he is in the business primarily to help the farmer?

Mr. MOFFITT. Oh, no, no; he is in business, like everybody else, to make money.

Mr. KINCHELOE. But doing that helps the farmer?

Mr. MOFFITT. It helps the farmer.

Mr. KINCHELOE. You do not favor doing away with him at all?

Mr. MOFFITT. Why, certainly not.

Mr. KINCHELOE. So you are against any part of this Tincher bill, or any other of them?

Mr. MOFFITT. Oh, no. This bill permits me to speculate. I am regularly in the grain business; I can speculate under this bill.

Mr. KINCHELOE. I thought you said you were the other fellow.

Mr. MOFFITT. I am not a manipulator; I am a speculator. I am a trader in grain, in other words.

Mr. KINCHELOE. What evils are there, if any, that ought to be done away with by legislation, in your judgment?

Mr. MOFFITT. There are not many evils in our market to be done away with. The evil mentioned here we said we were willing to do away with. The board has announced that they are willing to do away with it, to eliminate the put and call evil.

Mr. McLAUGHLIN of Nebraska. I would like to ask another question or two, to try to get this matter clear. This young gentleman from Peoria, Ill., made the statement to the committee that he was in favor of fluctuating prices, because he thrived because of those fluctuations. You have agreed with his testimony, that the speculator profits because of the fluctuations?

Mr. MOFFITT. Naturally; I think that is true.

Mr. McLAUGHLIN of Nebraska. Then in another part of your testimony, as well as the testimony of other gentlemen who have appeared, you contend that the speculator is necessary to the market in order to stabilize the market?

Mr. MOFFITT. I think so; yes.

Mr. McLAUGHLIN of Nebraska. I can not quite see how you reconcile the two, that the speculator wants fluctuations because he thrives on the fluctuations—and so it is a logical conclusion that he will endeavor to produce fluctuations or to assist them—and at the same time while he thrives on that he is stabilizing things. Can you harmonize those two statements?

Mr. MOFFITT. Well, that is rather difficult, I think.

Mr. McLAUGHLIN of Nebraska. I think so myself.

Mr. MOFFITT. It does not seem to me, though, that there is any inconsistency in the statement that a man is a stabilizer and that he might create a fluctuation in stabilizing the prices. There are contending elements in the trade; some are bearish and some bullish, and the market fluctuates backward and forward, and no man or set of men can control the price. They are all trying to determine ahead just what the future is going to be, and that creates the fluctuations. It is a doubt in the man's mind, a question in the minds of the traders, as to what the future is going to bring forth.

Mr. McLAUGHLIN of Nebraska. By reason of the stabilized market, it is evidently beneficial to the producer of grain, is it not?

Mr. MOFFITT. Well, take corn and oats, and I think our markets are reasonably stabilized. There is very little fluctuation in corn and oats, less than there would be if there were no trading in futures.

Mr. McLAUGHLIN of Nebraska. I think it is clear that as far as the producer is concerned he wants a stabilized market; he does not want a market that is fluctuating from 10 to 20 cents every few hours.

Mr. MOFFITT. But we do not have any such market as that under normal conditions.

Mr. McLAUGHLIN of Nebraska. Well, we have fluctuations—of course, any market has—and it occurs to me that the speculator thrives on a fluctuating market, while the producer is interested in a stable market, and it is hardly logical to say that you have got to have the speculators in order to stabilize the price to the producer.

Mr. MOFFITT. I might put it this way. Speculation creates numerous small fluctuations in the market. That is, the contending elements that are buying and selling create small fluctuations, under normal conditions, whereas without any speculation at all you would have sudden breaks or sudden advances, big breaks and big advances, during which time a person can neither buy nor sell. As I tried to illustrate by my reference to the fur market, it went up 500 per cent in the course of three or four years, and dropped back almost to the start in a year or so, or probably a few months. There was no

stabilizing influence in the market at all. The rice market did the same thing, and the wool market did the same thing, and the leather market did the same thing, and the hides market did the same thing—simply a perpendicular drop of 40 or 50 per cent without any trading at all. There is a lack of stabilization.

Mr. McLAUGHLIN of Nebraska. If you are through with that, Mr. Moffitt, I want to ask you another question relative to a statement you made a while ago concerning your St. Louis exchange. I believe you said the total volume of business transacted on your exchange last year was 318,000,000 bushels?

Mr. MOFFITT. 318,000,000 in futures; the cash was 94,000,000 bushels. That is about three to one only. You could not say that was unreasonable, could you?—three bushels of futures to one of cash. That is certainly not unreasonable.

Mr. JONES. Mr. Moffitt, exactly what do you understand by "puts and calls"?

Mr. MOFFITT. A "calls" is the privilege to buy.

Mr. JONES. Just illustrate it.

Mr. MOFFITT. We will say that wheat closed at $1.20 to-night for May wheat. To-morrow the seller will sell calls at $1.22. That is, the buyer of this call has the privilege of buying wheat at $1.22 on the following day.

Mr. JONES. From whom?

Mr. MOFFITT. From the seller, the man that sold the call. He has the privilege of buying it; he does not have to buy it unless he wants to. If the market stays under $1.22, naturally he would not buy it, but if it goes up to $1.23 or $1.24 he would.

Mr. JONES. Is he limited to the next day, usually?

Mr. MOFFITT. Well, it is according to how it is sold. You can buy a call for a week or a month.

Mr. JONES. According to the contract?

Mr. MOFFITT. According to the contract; yes, sir. Most of them are sold from day to day, however.

A "put" is the reverse. That is, you have the privilege of selling the wheat at, say, $1.18 to-morrow. You are anticipating a break in prices when you buy a put; you are expecting an advance when you buy a call.

Mr. JONES. What do you pay for that privilege?

Mr. MOFFITT. You pay $1 a thousand, and tax. On the calls there is a war tax, I think.

Mr. JONES. What do you understand by the term "indemnity?"

Mr. MOFFITT. The same thing as a put—"ups and downs;" they are all the same.

Mr. KINCHELOE. Mr. Moffitt, you said awhile ago you thought the speculator was a benefit to the farmer?

Mr. MOFFITT. Yes.

Mr. KINCHELOE. When a man goes on the market as a speculator to buy grain, of course he undertakes to buy it just as cheaply as he can?

Mr. MOFFITT. Naturally.

Mr. KINCHELOE. And of course he will do all he can to beat down the market and get it as cheaply as he can?

Mr. MOFFITT. In a market like we have he has somebody watching the other side.

Mr. KINCHELOE. Well, now, relative to its being a benefit to the farmer, suppose you are speculating to-day and you are out to buy wheat. You are going to do all you can to beat down the market to-day. Your idea is that that is a benefit to the farmer?

Mr. MOFFITT. If I were a power in the market and had the power to beat it down I might do it.

Mr. KINCHELOE. Can not enough of them get together to do it?

Mr. WILLIAMS. Let me ask you a question relative to the theory that speculation on the board of trade helps the farmer. You are president of the St. Louis Board of Trade, I understand?

Mr. MOFFITT. Yes, sir.

Mr. WILLIAMS. I live over in Illinois, just 100 miles out of St. Louis. About six weeks ago a young fellow over in that section of the country lost $80,000 on the St. Louis board of trade in wheat and corn, and broke a country bank. Now, who got his money? The farmer did not, because the price was declining all the time. Do you know who got his money?

Mr. MOFFITT. What did he buy? Corn or wheat?

Mr. WILLIAMS. Corn and wheat. He bought on a declining market.

Mr. MOFFITT. It does not follow that anybody got that money.

Mr. WILLIAMS. Well, he lost it and broke a bank. Somebody got that money. The farmer did not, because the farmer's product was going down all the time.

Mr. MOFFITT. Suppose you owned a house and it would shrink in value. Who would get the money?

Mr. WILLIAMS. But he put up the actual cash, and somebody got that money.

Mr. MOFFITT. Well, that money was paid for the grain before it declined. The wheat came in there, or the corn, or whatever it was, and went to the elevator. The elevator man sold this contract, and this fellow got the contract on these high priced levels.

Mr. WILLIAMS. But somebody got his actual cash.

Mr. MOFFITT. Of course, the elevator man that sold this contract got the benefit of that decline. The wheat in the elevator suffered that decline, suffered the loss. So there is really no gain to anybody there, except that the elevator man that had his hedge out was protected.

Mr. WILLIAMS. I know, but somebody got this fellow's $80,000. It was not the farmer, because his product was going down all the time.

Mr. MOFFITT. The chances are the hedger got the money.

Mr. WILLIAMS. It was on your board of trade, and I thought maybe you would know.

Mr. MOFFITT. I did not get it.

Mr. WILLIAMS. I know you did not, but who did?

Mr. MOFFITT. The fellow who was short on a hedge probably got that money.

Mr. WILLIAMS. Of course, that was a small deal and you did not hear of it.

Mr. KINCHELOE. And it is your contention that the fact that this fellow lost his $80,000 on a declining market was a benefit to the farmer?

Mr. MOFFITT. Suppose the farmer sells wheat for that high level of prices and that fellow puts his money on it. Does not the farmer get the money? This man must have bought some high-priced grain to have lost his money. Who sold that high-priced grain? The farmer sold it to the elevator man. He bought some hedger's wheat. The hedger was long on the cash wheat or cash corn, and he sold a contract against it. That contract depreciated in value, and the hedger got his money. The hedger lost on the cash what he gained on the future.

Mr. KINCHELOE. And the speculator was in the market to buy stuff, and looking to buy at the lowest price. It is your idea that the farmer who had to sell on that day for that same price was benefited?

Mr. MOFFITT. Naturally, if the farmer sold at the low price he was not benefited.

Mr. KINCHELOE. You admitted the speculator was going to buy as cheaply as possible——

Mr. MOFFITT. Don't you think the farmer was helped by this fellow going into the market and putting up his $80,000?

Mr. WILLIAMS. How could he be, if the market kept declining? If that helped the farmer it is a kind of help he does not appreciate.

Mr. MOFFITT. This man went into the market, did he not, and invested $80,000. Somebody sold the wheat to him, didn't he?

Mr. WILLIAMS. I am asking you who did it. I did not know.

Mr. MOFFITT. Somebody sold it to him. How could he have lost his money unless they did? He bought those high-priced contracts, and the chances are he bought them from a hedger. The hedger had already bought the farmer's wheat or corn and hedged it by the sale of the contract.

Mr. WILLIAMS. I will say that hedging is not very popular in that community where that little bank broke.

Mr. MOFFITT. Of course, I do not know who handled the transaction. Was it a banker?

Mr. WILLIAMS. No; it was not a banker.

Mr. MCLAUGHLIN of Nebraska. Did this young man have any of the wheat left?

Mr. WILLIAMS. No; he did not have any wheat. He just went on the St. Louis Board of Trade, and he broke everybody else in that neighborhood. We want, if we can, to stop that sort of thing, and I take it you do.

Mr. MOFFITT. There were certain stocks selling in our market for $200 a share a short time ago which are now selling for $30 a share, and there has been a shrinkage of $6,000,000 in that stock. You ought to stop that too, don't you think? Lots of men lost millions of dollars.

Mr. JONES. Of course a great many States have blue-sky laws.

Mr. MOFFITT. But this was a legitimate corporation, a high-class corporation. They had the assets, and they have the assets now, but they are losing money instead of making money, and the stock has slumped. There has been a shrinkage in the inventories in various lines of business running into millions and millions of dollars, just the same as in grain. This is no exception. You can not prevent those things from happening.

Mr. KINCHELOE. If this speculation is such a benefit to the farmer, do you not think it would be a good think for this committee of 17 to go in and speculate?

Mr. MOFFITT. They want to come in with us.

Mr. KINCHELOE. Why don't you let them in?

Mr. MOFFITT. We are willing to let them in if they are willing to abide by our rules.

Mr. KINCHELOE. Well, if they want to come in and you are willing to let them in, why don't they come in?

Mr. MOFFITT. They are not willing to come in under our rules Our rules are equitable and fair and they have never been questioned They are just to everybody.

The CHAIRMAN. What provision of the rules do they object to?

Mr. MOFFITT. Mainly to the commission rule. They want to rebate commissions. That is really the only contention that we have with them, just that one feature.

Mr. MCLAUGHLIN of Nebraska. They want to rebate commissions to their members, who are the producers. Why don't you let them do that?

Mr. MOFFITT. The objection is not so much that they rebate to their members, but if we permitted them to rebate we would have to permit all our members to rebate.

The CHAIRMAN. And that would force the commission down?

Mr. MOFFITT. It would force the commission down; it would break down the commissions.

The CHAIRMAN. Below a living rate?

Mr. MOFFITT. Below a living rate. That is the objection; yes. Our commission is only 1 per cent now, and we consider it extremely moderate. We can not afford to have it broken down. If they are willing to come in and observe our rules we are willing to have them come in. We would invite them in.

The CHAIRMAN. Why are they insisting on that?

Mr. MOFFITT. I really do not know. It does not mean anything to them, but it does to us. I do not see any reason why they should.

The CHAIRMAN. What would be the commission on a carload of grain, wheat or corn?

Mr. MOFFITT. A carload of wheat at $1.30, say, 1,000 bushels of wheat, would be $13.

The CHAIRMAN. How about corn?

Mr. MOFFITT. With corn at 60 cents, 1,500 bushels, say, would be $9.

Mr. VOIGT. You do not charge that commission on futures, do you?

Mr. MOFFITT. The commission on futures depends. For trading in wheat in our market we charge $7.50 for 5,000 bushels to a nonmember; $3.75 to a member. Then we have scalping members that charge $2 for 5,000 bushels.

Mr. VOIGT. I thought the commission on futures was one-eighth of a cent a bushel.

Mr. MOFFITT. At one time it was; but the rate has been changed during the war.

Mr. VOIGT. You boosted it?

Mr. MOFFITT. Yes; from $6.25 to $7.50. Our expenses of operation had increased, and we felt we needed a little more money.

On the question of private wires—St. Louis has no private wires. We do not operate any out of St. Louis, and so we have nothing to say about that.

The CHAIRMAN. I understood you to say that your State of Missouri had passed a law——

Mr. MOFFITT. Yes; requiring us to admit these cooperative associations and permit them to rebate. That law was passed in the State of Missouri, but nobody has petitioned to join our exchange up to the present time. It was only signed a week or so ago. The governor signed it about a week or 10 days ago.

The CHAIRMAN. Does it make it mandatory for you to accept them?

Mr. MOFFITT. It makes it mandatory upon us to accept them.

The CHAIRMAN. Regardless of responsibility?

Mr. MOFFITT. I do not think so. We could insist on their being responsible, I think.

Mr. MCLAUGHLIN of Nebraska. What effect will that have on your exchange?

Mr. MOFFITT. Up to the present time, none. To be frank with you gentlemen, we have reason to think that that feature of the law is unconstitutional, and we are going to test it in the courts. We are advised by our attorneys and the Kansas City attorney and the St. Joseph attorney that it is unconstitutional.

Mr. TINCHER. You will be able to keep them out this year in testing it?

Mr. MOFFITT. Well, we are going to test the law, and I think we have a right to do that. Somebody asked the governor why he did not veto it on the question of constitutionality, and he said the proper place to determine the constitutionality was in the courts.

Mr. WILLIAMS. Is that the only objection you have to the law, that it is unconstitutional?

Mr. MOFFITT. Yes; outside of that feature of the law we have no objection to it.

Mr. WILLIAMS. Why not go ahead and let the law operate and let somebody else raise the question of constitutionality?

Mr. MOFFITT. We are the interested parties, I think.

Mr. WILLIAMS. I know, but you have no objection except on the grounds of constitutionality, and that does not hurt you.

Mr. MOFFITT. I do not get your meaning.

Mr. WILLIAMS. I understood you to say that your only objection to the law was that it was unconstitutional.

Mr. MOFFITT. I mean, we object to that feature of it, that rebate feature, and we are going to attack the law on the ground of unconstitutionality. We object to that feature, and we attack it on that ground.

The CHAIRMAN. If they would agree to charge the same commission, would they be admissible?

Mr. MOFFITT. Certainly they would.

The CHAIRMAN. Do you agree to accept anybody that pays your membership fees?

Mr. MOFFITT. Well, I sat on the membership committee for eight years, and I do not remember of rejecting a man that came up during that time.

The CHAIRMAN. I take it you inquire of somebody as to their responsibility?

Mr. MOFFITT. We require a statement that they are financially responsible, and so on.

The CHAIRMAN. What other requirements are there?

Mr. MOFFITT. Well, I presume, good moral character and proper financial standing. A man does not have to be of any great financial ability to join our exchange. It only costs about $1,500. A man might come in as an employee of somebody. It is not difficult to get in the exchange; it is a very easy matter.

Mr. TINCHER. I think I must have misunderstood as to why you would not let them in. I did not understand they wanted each member of their cooperative exchange to have the right to go there on your exchange and have his commission rebated. I understood the reason you would not let them in was that they distributed their money among themselves.

Mr. MOFFITT. Yes, sir; that is the right idea.

Mr. TINCHER. Well, what business is it of yours as to how they handle their money among themselves? How does the Constitution get into that? Do you think the Constitution will interfere with their dividing their money up among themselves?

Mr. MOFFITT. Well, it is in violation of the rules of our exchange.

Mr. TINCHER. For instance, if the cooperative society joins your exchange and buys a membership, they would have in the name of the corporation a membership on the grain exchange.

Mr. MOFFITT. In the name of some individual.

Mr. TINCHER. Just one membership; and they pay commissions just exactly the same as the rest of the members pay, but it is what they do with their money after they get it that you are objecting to.

Mr. MOFFITT. In that case he would handle the grain himself; this representative of this cooperative society would sell it himself. Then he would rebate commissions in proportion to the amount of grain that each member might ship him, and that is in violation of our rules.

Mr. TINCHER. Why do you have any such rule as that?

Mr. MOFFITT. Because we have to preserve our commission. We have a rule that provides that commissions shall be uniform and that there shall be no rebating of commissions to anybody.

Mr. TINCHER. That would not be rebating of commissions.

Mr. MOFFITT. It would not? We think it would.

Mr. TINCHER. I would not think it would. This committee last session reported out by unanimous vote a bill like the bill passed by the Missouri Legislature. It was reported out late in the session, and it was not up for consideration. It is before the committee now—known as the Steenerson bill. We were never able to figure out why you objected to what they did with their money after they got it.

Mr. MOFFITT. Mr. Hirth wrote a letter to his shippers stating that they proposed to rebate—he used the word "rebate"—so much a car for all the stuff they would ship to this concern.

Mr. TINCHER. As far as the member of the exchange is concerned, he is not asking you to treat him a bit different from what any other member of the exchange is treated, but he insists upon the right to divide the money among his people the way he wants to.

Mr. MOFFITT. Well, now, suppose—of course, you would not speculate—but suppose you were trading with me, and I would make an agreement with you to give you part of my commission back. That would be a violation of our rules. It would be the same violation if this cooperative society man would agree to divide his commission.

Mr. TINCHER. He would not really be dividing it, because they all have the same interest in that commission, because they all contributed to buy the seat.

Mr. MOFFITT. No. If he would divide it in proportion to their stockholdings there would not be any objection to that, but he is dividing it in proportion to the amount of grain shipped.

Mr. JONES. He represents all those people; he is just a dummy. I do not see how you can object to the whole organization, of which he is actually though not nominally a member, dividing their funds any way they want to. They just put this man up there to act for them. He is a dummy.

Mr. TINCHER. As a matter of fact, the proposition of these commissions was an afterthought, was it not? You just refused to let them in at all, and then set that regulation up to keep them out?

Mr. MOFFITT. Oh, no; that commission rule has been in force for many years. It has been in operation for a long time.

Mr. TINCHER. The proposition is this: Mr. Williams buys a membership on your exchange. Mr. Thompson, Mr. Williams, and I are partners on the outside, and we agree to prorate our profits according to the amount of wheat each one of us has. Mr. Williams is a member of this partnership at the same time he has that membership on your exchange. You would not want him to divide the profit that he made out of commissions among the three of us according to our proportionate shares of wheat?

Mr. MOFFITT. Not in proportion to the amount of wheat you ship, but in proportion to the amount of stock you hold in the concern, if there was a profit made.

There is one feature about this bill, about the authority of the Secretary of Agriculture to revoke the designation of boards of trade. To be fair to the exchanges, I think that there ought to be some restriction on that. There ought to be an appeal to a court, or something of that sort. Here is an exchange with millions of contracts out, and we do not want to put in the hands of the Secretary of Agriculture the power to clamp down on it instantly.

Mr. TINCHER. Well, that authority, in order for this law to be effective, has got to be conferred upon someone.

Mr. MOFFITT. But is there any objection to giving us a court appeal on that?

Mr. TINCHER. I do not want any harsh law passed, but is there any more appropriate place to vest that jurisdiction than in the Secretary of Agriculture? If there is I would like you to suggest it. Naturally, clamping down on that grain exchange in St. Louis, if the situation should arise, would not only hurt the grain exchange, but would hurt the country, would it not?

Mr. MOFFITT. Yes.

Mr. TINCHER. Now, in order for this law to be effective, to make you obey it at all, somebody has got to have jurisdiction to make you do this thing. Is there any more appropriate place to put that than in the Secretary of Agriculture?

Mr. MOFFITT. Yes; let us have an appeal to some court.

Mr. JONES. You would have to establish rules in the law to govern the courts.

Mr. MOFFITT. I do not know much about law, but it seems to me we ought to have some protection.

Mr. WILLIAMS. That would take it before some individual judge. Would he be any better qualified than the Secretary of Agriculture?

Mr. MOFFITT. He would give a hearing on it.

Mr. WILLIAMS. Would he be any fairer? I presume the Secretary of Agriculture would give you a hearing.

Mr. TINCHER. It says he must. I have not thought of anyone that it would be more appropriate to give that jurisdiction to.

Mr. MOFFITT. I think you are right, Mr. Tincher, about the Secretary of Agriculture being the proper man to do it, but we ought to have an appeal to the court.

Mr. VOIGT. I think you should have an opportunity to review the action of the Secretary in the courts. That provision was put into the packers' bill at the last session, providing for a decision by the Live Stock Commission and giving the packers the right to appeal to the Federal courts.

Mr. JONES. That is in the interstate commerce act.

Mr. WELLS. Mr. Tincher, my attention has just been called to a provision in the cooperative marketing bill which has just passed the Senate. They tell me that matter was very satisfactorily taken care of there.

Mr. TINCHER. I shall not oppose any amendment to clarify any right to any particular appeal. However, I think the Secretary of Agriculture should act. For instance, I do not want the trade and the country to have to wait for action in this matter. I think the Secretary should have some pretty drastic powers, so far as temporary orders are concerned.

Mr. WELLS. I suggest you look at that cooperative marketing bill. I understand it is handled extremely well there.

Mr. VOIGT. I think your bill should provide not only that the Secretary of Agriculture should have the right to cancel this market privilege, but he should also have the right to suspend this market privilege. Suppose he is of the opinion that there has been some violation which would not warrant putting a concern out of business; he should have the power to suspend their rights for 30, 60, or 90 days. That would have a very salutary influence.

Mr. MOFFITT. That would have a very disastrous influence if a man had that power——

Mr. TINCHER. I might say that in putting that provision in the bill I assumed there never would be a violation of that provision. I assumed that there would be a strict compliance with that law on the part of the exchanges.

Mr. MOFFITT. I was under the impression that the Constitution was very clear on the right of contracts; that the law protected contracts as far as possible. We do not want to put it in the power of a Secretary of Agriculture to declare that contracts shall not be made in a certain manner for a certain period.

Mr. TINCHER. The courts have held that it was perfectly constitutional to abolish gambling.

Mr. MOFFITT. The Supreme Court has decided, however, that our trading in futures is not gambling.

Mr. WILLIAMS. That is under the existing law. Under this law, if this bill is enacted, it will not be legal.

Mr. VOIGT. The courts have decided in various ways on future contracts. You can not take a court decision and say that that decision makes every future contract valid. The question of intent to deliver is the controlling question in every one of those cases, the question of whether there was a bona fide intent. Some of the courts in some of the cases have found that there was a bona fide intent to deliver, and in other cases they have found that there was no intent, and they held the contracts to be gambling contracts.

Mr. MOFFITT. Has the Supreme Court of the United States held that?

Mr. VOIGT. It is possible that only one case of that kind has gone to the Supreme Court, where the court was satisfied that there was an intent to deliver, but you will find cases in the lower Federal courts and in the State courts where they have decided both ways.

Mr. JONES. There are many decisions.

Mr. VOIGT. Yes. In my own State (Wisconsin) there is one supreme court decision, where the court decided that there was no intent to deliver and held a future delivery contract to be a gambling contract and to be void.

Mr. MOFFITT. Yes; there have been cases of that kind in Missouri, I think. It depends on the conditions.

Mr. TINCHER. I am frank to say to you that I found it just a little difficult to word that provision 4 there, and I will say that I do not like your suggestion at all. I was trying to word the bill so as to favor them and make them a special class. I think if that section of the bill needs enlarging it is to let others in besides the members of the exchange.

Mr. MOFFITT. But you have these other classes of cases. You say:

regularly engaged in the business of growing, dealing in, or manufacturing grain or grain products.

The word "feeders" ought to be in the bill, because the feeders are a very important factor.

Mr. TINCHER. I would not want to bar the feeders, and I do not think it is subject to that criticism. But I am not jealous of the language at all.

Mr. MOFFITT. What I am trying to do is to extend that a little bit. We want a large volume of trade among people equipped or qualified to trade in futures.

The CHAIRMAN. To what extent would this bill, if passed, restrict trading?

Mr. MOFFITT. It would be hard for me to say. It is admitted that the cutting out of privileges would cut it 25 to 40 per cent. In our market it would not cut out more than 10 or 15 per cent. In Chicago it may cut out a larger percentage of the trade. In our market the volume of trading privileges is not so great.

Now, in regard to eliminating people like lawyers and, we will say, doctors, and men in lines that have no connection whatever with the grain trade, it might cut out 10 or 15 per cent more. I can not

figure that. It would not cut out a great percentage of the grain business. I have never encouraged that kind of trade, but it would cut out some of the grain trade. I have made a practice of discouraging men who are not in the business.

The CHAIRMAN. Your estimate is that it would cut out 10 or 15 per cent of the speculation?

Mr. MOFFITT. I would say it would cut out more than that. Counting the privileges and the restrictions, it would be from 25 to 50 per cent on the Chicago board of trade, I would say. At least that. On our board it would be probably from 25 to 30 per cent of the volume of trade. And our market would not be as good a market to hedge stuff in; it would not afford the facilities for the farmer or the buyer to meet his wants on the market as it does now.

The CHAIRMAN. Are there any considerable number now operating on the board of trade that are not engaged in either the manufacture or production?

Mr. MOFFITT. I can not answer that. I say, as far as my own business is concerned, we specialize in future transactions, trading in futures, and there is a very small percentage of my trade that would be eliminated. I deal with elevator men and with manufacturers of feeds and millers and other grain dealers in other cities. My trade comes largely from Kansas City and Chicago and Minneapolis and other large centers, and from manufacturers of grain and professional traders on the floor.

The CHAIRMAN. You say professional traders?

Mr. MOFFITT. Men that are members of the board of trade and spend their time on the exchange in trading grain for future delivery. They make a profession of it.

The CHAIRMAN. There should be no limitation as to them?

Mr. MOFFITT. No. Take myself; I am what they call a "spreader." I buy the wheat in one market and sell it in another, and I feel I am a stabilizing influence to that extent.

To illustrate: At the present time the Kansas City market is loaded down pretty heavily with cash corn; it has a large stock. Well, I buy in a very large way in Kansas City, with the idea that it probably may in time come back. You see, I am stabilizing the the market that needs stabilizing; I am buying in Kansas City, where they need it. They have not enough buyers out there, and that accounts for their weakness. Then I put the hedges where the markets are strong and high, and that makes it possible for Kansas, City to accumulate that corn and do business. If it were not for these spreaders, as we call them, Kansas City might sink to such a discount that they would not accumulate any corn out there. That is the class of trade—and I want to emphasize this—that magnifies the volume of trade in Chicago. One end of almost every hedge that is made on a spread lands in Chicago, either on the buying or selling side, and that magnifies the trade to an immense extent.

The CHAIRMAN. Is there any difference as to the number of grades deliverable on a contract in your market and in Kansas City?

Mr. MOFFITT. There is no difference in corn. They have 1, 2, and 3 corn deliverable in all our markets—1, 2, and 3 mixed, 1, 2, and 3 white, and 1, 2, and 3 yellow.

The CHAIRMAN. How about wheat?

Mr. MOFFITT. Wheat is different. In Kansas City they have No. 1, 2, and 3, hard wheat; only in Kansas City.

The CHAIRMAN. The same as Minneapolis?

Mr. MOFFITT. No; Minneapolis is different. Kansas City is on the eastern border of the hard-wheat district. Minneapolis has spring wheat. In St. Louis we have 1, 2, and 3 hard and 1, 2, and 3 red winter wheat. Missouri and Illinois raise red winter wheat. We permit the delivery of both hard and soft wheat on our contracts, Nos. 1, 2, and 3.

Mr. JONES. You can deliver any grade of any kind of wheat?

Mr. MOFFITT. The standard is No. 2 red wheat. That is, the contract reads No. 2 red wheat, and you can deliver No. 3 red wheat at a discount. I think it is 5 cents discount.

The CHAIRMAN. You have three grades: Dark hard wheat, yellow hard wheat, and——

Mr. MOFFITT. We have No. 1, 2, and 3 red. I might explain. The hard wheat would naturally be yellow hard, I should say. They have the dark hard and the yellow hard, but the dark hard would naturally come in, because the cheaper grade is usually delivered on a contract. A man buys for delivery what he can deliver cheapest; that goes without saying. We have six grades deliverable, but they are good milling grades, and there has not been any objection to our grades.

Mr. TINCHER. There has not been any objection out West that I know of except once, and that was during the Government control by the Bureau of Markets, under Mr. Brand, when they put in a variation in the price of the different grades. He had as high as 32 cents difference between different grades of wheat after it was milled into flour. We have corrected that, and I have not heard the word "grades" mentioned out there since.

Mr. MOFFITT. We fix an arbitrary difference of 5 cents a bushel, when they deliver No. 3 hard wheat or No. 3 red wheat on a contract.

Mr. TINCHER. That is probably too much.

Mr. MOFFITT. Well, you do not have to deliver it. If you have No. 3 red you can sell it on the market and buy back your contract. We make a practice under our rules of discounting the lower grades a little bit more than the normal difference, because we do not want to encourage the delivery of the lower grades on the contract. We rather want to encourage the delivery of the higher grades.

Mr. VOIGT. You say you buy in Kansas City and sell in Chicago?

Mr. MOFFITT. Yes, sir.

Mr. VOIGT. Your Kansas City contract provides for delivery at Kansas City?

Mr. MOFFITT. Yes, sir; that is true.

Mr. VOIGT. And the contract to sell in Chicago provides for Chicago delivery?

Mr. MOFFITT. That is right.

Mr. VOIGT. Don't you ever get into trouble on that proposition?

Mr. MOFFITT. Well, sometimes we lose money on it, but that is a chance we take.

Mr. TINCHER. There is always the difference in freight rates.

Mr. MOFFITT. There is always the difference in freight rates. We might stand to lose 2 or 3 cents a bushel by doing that, but we are willing to take the chance of making something on it.

Mr. VOIGT. You take your chance of disposing of your contract before the delivery is called for?

Mr. MOFFITT. Yes, sir; that is the idea. That is a species of trading, I say, that is practiced largely in our markets, and the reason I mentioned it is that it makes for the largest volume of trade in Chicago; because, as I say, one end goes to Chicago almost invariably, and the reason it does go to Chicago is because they have a trading market that will take a big line of stuff on either side without influencing the market to any great extent. I think that is the value of volume in trading.

Mr. VOIGT. The spreader is considered the most expert man in the trade, is he not?

Mr. MOFFITT. I do not like to say that, because I am a spreader; that is my method of trading. I might say it requires a lot more study and probably better judgment than it does to trade straight on the market.

The CHAIRMAN. In your opinion, does the contract have anything to do with the spread or the premium on the cash grain?

Mr. MOFFITT. You mean in wheat? You are not referring to corn?

The CHAIRMAN. I mean according to the number of grades deliverable on the contract, with fixed differences.

Mr. MOFFITT. I think the more grades you have on a contract the more likely the future is to sell at a discount than if you only had a few grades. I have always stood for this; I have always stood for specializing the grades. In other words, if I might explain, I have always stood in our market for a contract that represented a particular grade. In other words, I have stood for a contract that represented soft winter wheat, say, Nos. 1, 2, and 3, and if we wanted to trade in hard wheat we would trade in hard wheat on a special contract.

The CHAIRMAN. But in order to bring that about it would be necessary to have more than one pit in the same market?

Mr. MOFFITT. It would not in a small market, but it would in a large market like Chicago. We trade in wheat, corn, and oats in one pit. It would not be necessary in our market to have separate pits, but it would be in Chicago, I think.

The CHAIRMAN. But if the grades were limited to one class, that would make a contract of more value to the buyer, would it not?

Mr. MOFFITT. Yes; it certainly would make it more valuable to the buyer, because the hard-wheat miller can buy a hard-wheat contract and the soft-wheat miller can buy a soft-wheat contract, and he would be sure of getting what he wanted. Under our present rule a soft-wheat miller might buy a regular contract and they might hand him some hard wheat on it.

The CHAIRMAN. Under such an arrangement would it be easier to run a corner?

Mr. MOFFITT. Yes, sir; with separate contracts it would be easier to run a corner.

The CHAIRMAN. How would that affect you?

Mr. MOFFITT. It would be easier for a man to control one grade of wheat than six grades of wheat, would it not? He would not have as large a volume of grain to take care of. Suppose you step into the

market and buy a regular contract, such as we have now, they could go to Illinois or Missouri and get the soft wheat and give it to you, or go to Kansas or Iowa and get the hard wheat. If you had a single contract, they would have to get that particular grain.

The CHAIRMAN. What would you think of the suggestion that the buyer be permitted to select from two contract grades half of the contract, the other half to be selected by the seller?

Mr. MOFFITT. I do not think I get the meaning of that.

The CHAIRMAN. We will say there are nine grades. The contract grade is No. 5.

Mr. MOFFITT. There are six grades; No. 1, 2, and 3 red, and No. 1, 2, and 3 hard. The contract grade is No. 2.

The CHAIRMAN. Well, the buyer would select two of the six.

Mr. MOFFITT. No. 1 is a very fancy grade; very little of it ever comes in. No. 2 is probably a large percentage of the crop. Then No. 3 is a little inferior to No. 2. So the basic grade is No. 2.

The CHAIRMAN. What is your idea as to fixed differences? Should there be fixed differences?

Mr. MOFFITT. I favor a fixed difference, because a man making a contract wants to know what kind of a contract he has. He wants to know what his No. 3 would cost him if he has to take No. 3.

The CHAIRMAN. Well, the seller is not going to tender any wheat that is at a premium?

Mr. MOFFITT. He would tender the wheat that he had on hand to tender, I think.

The CHAIRMAN. Well, he could go on the market and buy the wheat that he wanted?

Mr. MOFFITT. Exactly; he would adjust his contract.

The CHAIRMAN. If there are no further questions, we are grateful to you, Mr. Moffitt, indeed. Without objection the committee will stand in recess until 10 o'clock to-morrow.

(Thereupon, at 5.20 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m. to-morrow, Thursday, April 28, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Thursday, April 28, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

There were present Mr. Haugen, Mr. Purnell, Mr. Voigt, Mr. McLaughlin of Nebraska, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Gernerd, Mr. Clague, Mr. Clarke, Mr. Aswell, Mr. Kincheloe, Mr. Jones, and Mr. Ten Eyck.

The CHAIRMAN. Mr. Griffin, we will be pleased to hear from you this morning.

STATEMENT OF MR. JOSEPH P. GRIFFIN, PRESIDENT BOARD OF TRADE OF THE CITY OF CHICAGO, CHICAGO, ILL.

Mr. GRIFFIN. Mr. Chairman and gentlemen of the committee, I appear before your body as the representative of the Chicago Board of Trade. It so happens that during the progress of your hearings in January I also filed an appearance and presented a rather exhaustive statement of my views on these general subject matters.

My objective to-day will be to avoid duplication or repetition, and I shall briefly engage in a statement of collateral matters. Most of the time, however, I shall dedicate to an expression on my part of my views of the bill that is now pending before your committee. As I sense the situation, the only bill that is receiving serious consideration at this time is that sponsored by Congressman Tincher. As to the others, I may say, as a matter of record, I have studied them, analyzed them, and I heartily concur in the statement made by my colleague, Mr. Wells, yesterday, namely, that they are destructive in that if accomplished into law they would destroy the existing marketing machinery for the producer and consumer and provide no substitute.

I also concur in the statement of Mr. Wells that the Tincher bill has many elements of a constructive character. In principle, I wish to say to you, I indorse the Tincher bill. In precise detail, I believe it needs amendment, largely, to meet practical questions.

It so happens that the Chicago Board of Trade, since the hearing in January, has been giving its close attention to complaints of every character and variety affecting its method of doing business.

To that end, on the 28th of February, I addressed a letter to our board of directors, in my official capacity, which, with your indulgence, I should like to read and later have inserted in the record.

Mr. CLARKE. Pardon me, when did you write this?

Mr. GRIFFIN. On February 28.

CHICAGO, *February 28, 1921.*

BOARD OF DIRECTORS,
Board of Trade of the City of Chicago, Chicago, Ill.

GENTLEMEN: It is a matter of common knowledge that the grain exchanges have recently been subjected to much criticism. It is openly charged that many trade practices work to the detriment of both producer and consumer. These complaints are not confined to farmers, but rather include many elements in the grain trade (including members of this and other exchanges), millers, Members of Congress, and public officials.

Many writers heretofore friendly to exchanges have recently been very bitter in their denunciation, charging that the practices of which they complain can all be remedied from within, but allege that the exchanges are doing absolutely nothing in this connection. The officials of the leading exchanges of this country have denied the charges mentioned. That has been the attitude of this board. The denial of these allegations is undoubtedly based upon the conscientious belief that the charges lack foundation.

However, it may be possible that the responsible officials of the several exchanges are too close to the subject, and are prejudiced. It seems to me but fair and just and in exact line with our duty to examine the charges to determine their truth or falsity. Further, if there be of evil in our business it is our duty to meet the situation boldly and apply the cure ourselves, rather than wait for legislative action which may be hasty, ill-tempered, and unwise.

To that end I am herewith enumerating the practices which are claimed to be inimical to the welfare of producer or consumer, or both. I have embraced herein all the so-called evils which have been disclosed to me from any source, including the recent hearing before the House Agricultural Committee at Washington. I respectfully suggest that the board of directors give their serious consideration to the several subjects mentioned, so that within the next 30 days we may formulate a plan of action based upon an honest and conscientious examination of these complaints.

May I say for your information, I have also submitted practically a similar communication to the advisory committee—

which, if I may interpolate, is a committee of our association, not officials—

This latter committee is made up of some of the best minds of our exchange and I have asked them to give their best independent thought on these questions.

Mr. PURNELL. May I interrupt to ask you there how your advisory committee is selected?

Mr. GRIFFIN. They are appointed by the president, and the committee is made up largely of men with official experience but who at the time are not in official life. They are more or less a cabinet or advisory board to the president. They have no official powers or duties except in a purely advisory way.

The evils or practices to which I refer are as follows:

Overspeculation.

Market manipulation.

Indemnity transactions.

Private-wire offices in smaller cities and villages in the agricultural district tributary to the terminal markets.

Trading in future delivery in the distant futures.

Failure to properly censor market news, crop reports, etc.

Short selling.

Suggestions as to a proper method of coping with this situation are numerous and come from many sources. Some are of the opinion that we should entirely abandon indemnity transactions and should forbid the operation of so-called country wire offices. Members of Congress, as well as representatives of farmers and trade organizations, have suggested that we limit the quantity of speculative transactions for each individual, and the same authorities also urge that we confine trading in future delivery to a short period of time—suggestions varying from 30 to 90 days. As to manipulation, if such practices exist, I think there will be no dissent to my statement that such practices should not only be disapproved, but steps should be taken to render the operation of the manipulator impossible on this or any other exchange

The subjects embraced in this communication are numerous and I recognize will require careful thought and deliberation. I believe I have condensed in this letter all of the alleged evils of the exchanges. Let us approach the subject with an open mind. If our conscience tells us that any or all of these practices mentioned exist, and constitute an injustice to either the producer or consumer, or if we decide such methods are immoral or lacking trade or economic value, then I urge we meet the situation honestly and boldly, and apply the necessary cure.

Respectfully submitted.

J. P. GRIFFIN, *President.*

Now, gentlemen, arising out of that communication to our board of directors, we were in almost continuous session day and night, frequently until 11 or 12 o'clock at night, and on the 12th of April we produced a rather lengthy report, which I shall read if you wish.

Mr. TINCHER. It would be interesting to me to hear that.

Mr. GRIFFIN. This communication is addressed to me in my official capacity and is signed by the board of directors, under date of April 12, 1921.

CHICAGO, *April 12, 1921.*

Mr. J. P. GRIFFIN,
President Chicago Board of Trade:

Your board of directors has given careful and earnest consideration to your letter of February 28, summing up certain alleged trade abuses complained of by legislators and others, something which has been discussed by the directors in official session and informally for some time past, and we beg leave to submit the following report and recommendations:

OVERSPECULATION.

During the war period and for approximately 18 months following the signing of the armistice there was an unprecedented speculation in commodities of all kinds. This activity was not confined to exchanges, but on the contrary speculation in non-essentials as well as necessities was in infinitely greater volume where the exchange system did not exist. In view of these general conditions and the state of the public mind, it is not surprising that measurably a similar situation existed on the Chicago Board of Trade. We frankly concede that for a period of years prior to July 1, 1920, at times the trading activity on our exchange was in excess of that warranted by trade requirements, such as the needs of hedgers, exporters, millers, grain dealers, and others.

For approximately three years, however, there was no open market in wheat for future delivery and consequently greater speculation in other commodities. During the period in question, the markets were greatly disturbed because of the close adjustment between supply and demand and more particularly because the buying was transacted by governments and not by individuals. The necessities of their peoples apparently justified these governmental agencies in entirely ignoring price as a consideration in making their purchases. Consequently, it is not surprising that a vast number of investors, having knowledge of this fact, tried to keep in the wake of these huge Government purchases, thus accelerating the general activity of the market. Furthermore, the intemperate and at times seemingly hysterical buying by these European Governments would cause an upheaval in values and keep the market in a constant turmoil.

Speculation on exchanges generally was not more excessive than speculation in commodities not traded in on exchanges but the public mind was inflamed and misinformed because of the general policy of the public press to write up, in a spectacular manner, the operations of individuals in the market. In the trade itself it is frequently impossible to distinguish future transactions of a purely commercial character from those of a speculative nature. The press fell into the common error of assuming that the great bulk of the transactions of our members during the period stated was for individuals and speculative. The plain and simple truth is that during this time of intensified demands, governments alone traded in hundreds of millions of bushels of grain for future delivery as a part of their purchases of actual grain for consumptive purchases. In addition, the grain merchants and manufacturers of this country used the future markets on an enormous scale in hedges against both their purchases and sales for domestic distribution, as well as for export.

However, candor and sincerity, and a desire to frankly present the actual truth in this situation, compels us to admit that at times individuals attempted to follow in the

wake of the operations of these governments. This activity on their part for short periods undoubtedly resulted in what might be properly charged as overspeculation. Since July 1, 1920, there has been little, if any, cause for complaint. Governmental buying has been irregular; in fact, it is apparent that they frequently withheld their buying orders for the purpose of depressing values in order that they might buy more cheaply. The general economic depression which struck the entire world was undeniably the leading reason for decline in commodities traded in on exchanges and elsewhere. The processes of liquidation and deflation were hurried by overproduction and because competing producing countries were underselling us, not only abroad but at home. The buying agents of these European governments took advantage of this situation and at times for weeks and months entirely withdrew their bids from our market. It is apparent to all thoughtful persons that speculation on the exchanges had nothing whatever to do with the reduction in values of farm products, but rather that this situation was brought about by natural conditions.

At the present time there are huge stocks of grain in commercial channels, in secondary positions, and in the hands of farmers. Much grain now on the farms is sold and will be delivered after the farmer has completed his spring work. It is the speculator, and nobody else, who has carried, and is carrying, this load, the farmer being unable or unwilling to carry the grain. Grain merchants, millers, exporters, and all other so-called middlemen, were unwilling to assume the risk of price fluctuation and the speculator stepped into the breach and virtually acted as an insurance underwriter for all of these elements of the trade in carrying this huge surplus until a demand would provide an outlet. It is clear there has been no overspeculation since July 1, 1920, and if the exchanges have met with one difficulty it is in finding sufficient number of persons to help the farmer, the grain merchant, and the miller carry these enormous supplies pending an actual consumptive demand. The agitation against exchanges and the charges uttered by uninformed critics have undeniably kept many investors out of the market who otherwise would have been glad, on acccount of the price level, to have become investors in contracts for future delivery—thus carrying the load which others were unable or unwilling to assume.

It must be obvious that to maintain a broad, open market we must have traders of all classes, large as well as small. The very situation which makes our exchange the greatest market of its kind in the entire world is that it possesses volume and breadth, constancy, and liquidity, thus providing continuously and without interruption a market for producer and consumer.

We do find some trade customs of which advantage could be taken by those intent upon overspeculation. They are herewith enumerated and as soon as possible the officers and directors of this exchange will bend their best efforts toward the discontinuation of the practices mentioned.

The trade methods referred to are as follows:

"Deferred acceptance contracts, which are better known as indemnity transactions, which can be made use of for excessive and spectacular trading."

Extending of credit by commission houses to clients whose transactions are for other than hedging purposes.

It is our firm purpose to prevail upon our membership to so amend our rules as to preclude all transactions in indemnity contracts and at the same time induce other exchanges to follow the same course.

Mr. TINCHER (interposing). If I may interrupt you, I do not know whether all the members of the committee fully understand what you mean by indemnity contracts.

Mr. GRIFFIN. An indemnity contract, gentlemen of the committee, is akin to what is popularly known as an option on real estate. They are known in legal parlance as unilateral contracts. It is a contract which is binding on the seller of the contract but is discretionary with the buyer. That is the trade name for what are known in the vernacular as puts and calls. For illustration, if the market on grain or any other commodity or security traded in on exchanges should close at a given figure, say 100, to-night, and I was inclined to feel that the price might go higher, and possibly I had an interest in the market, a speculative interest or some other interest, or perhaps, I have no interest at all, I could buy a call or an upward indemnity at $1.02. That would give me until the close of the

market to-morrow the right to call from the seller of that indemnity contract the quantity agreed upon at $1.02, so that if the market the next day, for instance, should close at $1.05, without any risk excepting the cost of my indemnity transaction, I would be assured of a profit of 3 cents per bushel. Now, at the time these indemnity contracts, so-called, are entered into, they are not in any respect a contract for future delivery, but if they become operative they then do ripen into a contract for future delivery and are then handled as any other contract for future delivery. By the same process, on the reverse side, the downward indemnities are the puts and are operated in the same way.

Mr. PURNELL. How can the seller of the puts hope to profit?

Mr. GRIFFIN. The seller of the puts gets a premium of $5 for 5,000 bushels and he is usually a trader who is active in the market and he endeavors to protect himself. If he sells an upward indemnity at $1.02 and the market shows strength that day, he will go in the open market and make a purchase so that if the buyer of this contract exercises his privilege during the progress of the market that day, he is immune from loss, and, of course, he assumes the risk that the market may show strength, and he may make a purchase, and then some news transpire or something new develop, and before the end of the day the market may turn the other way and instead of having protected himself he has a loss in this transaction. His measure of protection, largely, is the fact that these contracts are sold at what we call a spread from the market. For instance, in the illustration I just cited, if the market closed at $1, the upward indemnities would sell probably for $1.02 and the downward indemnities for 97 or 98. The market would have to decline or advance 2 or 3 cents per bushel before the seller of those contracts would endanger any particular loss. Have I made myself clear on that point? If not, I would be glad to expound further.

The CHAIRMAN. Is the purchaser entitled to the highest quotation during the following day or is he simply entitled to whatever price he may call for during the day?

Mr. GRIFFIN. He has a specific contract with the seller at an agreed price.

The CHAIRMAN. For instance, he buys at $1.02 and the market goes up to $1.06, he then calls and gets $1.06.

Mr. GRIFFIN. He can sell it or he can carry the contract. For instance, if you sold me five offers at $1.02 and to-morrow the market closed at $1.05 or $1.10 or at any price above that agreed price, I would call from you 5,000 bushels of wheat and you would sell me 5,000 bushels at $1.02, and then in my discretion I could either sell it in the open market or carry it indefinitely. They are a character of contract which I will comment on later, so I will defer my discussion, if you will allow me.

While these contracts—

I am speaking again of these so-called indemnity transactions—

at times serve a very useful economic function. nevertheless they are frequently used as a medium of entering the market on a large scale. We have concluded that this latter fact outweighs all of their advantages and it has led to our conclusion that they should be abolished. We propose to enact rules and regulations which will give our officers proper jurisdiction over spectacular activities of our members. Further, we shall urge an amendment to our rule prohibiting the extending of credit for purely speculative purposes.

Mr. TINCHER. If it will not bother you to interrupt right there, what you mean there is that they afford an opportunity for manipulation?

Mr. GRIFFIN. No; not manipulation. There can be no manipulation through indemnity transactions, but they afford this opportunity: For a comparatively small premium a man not possessed of ample means—for instance, a man for approximately $100 might buy a call or a put, as we call it, upward or downward indemnity, on 100,000 bushels of grain. Without these facilities for trading that man would not trade in 100,000 bushels of grain, and thus it promotes overspeculation. I will say frankly that it is going to be a tremendous sacrifice to our commission merchants to give up indemnities, because they produce a great revenue and they do result in a great amount of trading; but we have concluded, as I am just reading here, that they do amount in substance, despite their at times useful, economic value, to overspeculation, and we are trying to drive overspeculation from our exchange.

Mr. JONES. By exercising a lot of those indemnity or privileged contracts, that could be turned into manipulation. By exercising the privilege of purchasing on a big scale and then turning around and then selling or disposing of the contracts, would not manipulation result?

Mr. GRIFFIN. That would not be manipulation. I would be glad to explain that later. I do not believe there is a proper understanding of just what constitutes manipulation.

Mr. JONES. I may not have the correct idea about it at all, but I had understood that if a man wanted to buy, he would go and sell, for instance, a lot of stuff in order to run the price down and then buy back.

Mr. GRIFFIN. Will you accept my assurance, Mr. Congressman, that that is untrue, and as a practical matter, that is an absurdity?

Mr. JONES. He can not do that?

Mr. GRIFFIN. It would be suicidal.

Mr. JONES. That is a very popular notion and one that you see commented upon frequently.

Mr. GRIFFIN. They are the criticisms of uninformed persons. As a practical question, in a market place, if you wish, for instance, as you say, to manipulate the market upward and attempt to encompass that purpose by first selling, you are defeating your very objective. You are selling grain to a vast army of men who are just as competent as you, and you have a contract which you can only satisfy by going back into that same market and buying in the open market, or else going in the commercial market and buying the actual grain and tendering it on your contracts.

Mr. JONES. But could you not dump a lot on the market and break the market and then buy back gradually and maybe accomplish the purpose.

Mr. GRIFFIN. You could not. As a practical matter you could not do that. You can buy and you can sell, but the mere fact you trade, even though you trade in volume, does not influence the market appreciably. It is conditions that cause fluctuations in the market. The reason markets fluctuate is that conditions fluctuate. For instance, in a market like Chicago, I do not care how wealthy a man is, he can not permanently or successfully drive the market upward

or downward. Gentlemen, you can trade in Chicago in 1,000,000 bushels of grain at one quotation.

Mr. JONES. I understood that Mr. Hoover, when he wanted to buy an immense quantity of beans, sold a lot of actual beans on the market and broke the market, and then bought them back gradually and got them at a much better price. I understood he made that statement himself or that it was attributed to him.

Mr. GRIFFIN. That was in a different market. The grain market is an open market. There is no open market on beans or Mr. Hoover could not have accomplished his purpose. You defeat your own objective, Mr. Congressman. For instance, if you are friendly to the market, in trade parlance, you are a bull. If you attempt to advance prices by selling the market, that is in fact a perfect absurdity. It is equivalent to attempting to leave Washington and go to New York, for instance, by traveling westward. As a practical question it is an absurdity.

Mr. JONES. You think that could apply where there is no exchange but could not apply on an exchange?

Mr. GRIFFIN. It could not apply on any open market. It could not apply on an exchange market.

Now, if I may momentarily discontinue reading this report, let me explain to you, in the understanding of the trade, the distinction between a speculator and a manipulator.

Mr. JONES. I would like to have that explanation.

Mr. GRIFFIN. The speculator is a man who is a student of conditions and who enters the market for profit, who after a careful study and analysis of conditions tries to forecast future events. In other words, he attempts to make money by being right on conditions. Now, the difference is that a manipulator is a man who enters the market with the objective of making money whether he is right or wrong on conditions. He attempts at times to force conditions.

Mr. KINCHELOE. Now, will you explain right there, in what way he attempts, and how he can do that.

Mr. JONES. Yes; by false reports, or just how?

Mr. GRIFFIN. No; the question of false reports is grossly exaggerated. The manipulator attempts to defeat the natural law of supply and demand. For instance, the common attempt at manipulation—this may not be popular with you gentlemen, but it is the truth—the common attempt at manipulation and the only attempted manipulation, in my judgment, that can be successful, is an upward manipulation. Men, acting as individuals or in groups, get together and they buy a large quantity of grain for future delivery; for instance, we will say, for delivery in the month of May. As those contracts mature they do not sell on the market. They buy more than in their judgment the collective sellers can deliver They are favored and are helped by the element of time, because their sellers have a contract which must be satisfied before the last day of the month of May. It so develops that this pool or this individual is wrong on conditions, we will say, and the natural conditions would point the market downward; the supply in excess of the demand. What do they do? They go into the open market and buy up grain to keep it away from their competitors, so it can not be deliverd to them. They take that grain after it is delivered

and they sell it on the markets of the world at a loss, so that they may, if possible, squeeze those contractual sellers who are not in possession of the grain to make actual delivery. Now, that is the common and the accepted manipulation practiced on exchanges. In other words, what I have explained to you is what is generally understood to be a corner.

Mr. PURNELL. Is that ever successfully done?

Mr. GRIFFIN. In the old days it has been successful, but generally it was a failure.

Mr. CLARKE. Did not Leiter go broke doing that?

Mr. GRIFFIN. Leiter lost his fortune attempting to corner the wheat market. Old Hutch, as we called Mr. Hutchinson, one of the quaint old characters on the market, who died about 25 years ago, operated a number of so-called corners. I think one was successful. The others were failures. A corner, as I say, gentlemen, is an attempt to defeat a natural, economic law, the law of supply and demand, and a manipulator is a man who attempts to make money, whether he is right or wrong, on actual conditions. Have I answered to your satisfaction, Mr. Congressman?

Mr. JONES. That is all right, sir.

Mr. GRIFFIN (reading):

In addition, we favor the adoption of a rule which will prohibit our members from accepting contracts for future delivery from employees of members of this or other exchanges (excepting where employees themselves are members of the exchange), banks, trust or insurance companies, or any person occupying a position of trust or having fiduciary relations. These suggested amendments, if carried out, will, in our judgment, entirely eradicate overspeculation within the trade. If other measures are necessary to control those not members of exchanges, appropriate action will follow later.

Mr. CLARKE. How do you plan to effectuate that?

Mr. GRIFFIN. By the adoption of rules on our exchanges. The officers of the board are purely an administrative body. We have a board of directors of 18 members, 15 of whom are directors, the remaining three being the president and two vice presidents.

Mr. CLARKE. Can you exclude from your exchange anybody who does not conform to the rules?

Mr. GRIFFIN. Yes, sir. The rigid disciplinary power on exchanges is not paralleled anywhere in the world, not even in law. A member of the exchange who transcends even an ethical rule is expelled from the exchange, and not only suffers the disgrace and humiliation and the forfeiture of the monetary value of membership, but, in a commercial sense, he is ostracized. That club held over the heads of the members, in my opinion, keeps them hewing to the line.

Mr. TINCHER. Your rule enforced in the Chicago Board of Trade would not prevent the men in Kansas City or St. Louis from indulging in puts and calls; you have no way of forcing them?

Mr. GRIFFIN. None whatever. I may say that following the publishing of the report of our directors all of the principal grain exchanges in the country held a meeting—I was not personally present—and they unanimously indorsed the recommendation of our board and agreed in their turn, as soon as may be, to make such amendments to their rules as to make this recommendation operative.

Mr. TINCHER. Of course, there is need for a law on the subject, because there will always be some outfit of people trying to profit

Mr. GRIFFIN. Mr. Congressman, I think I speak not only for the Chicago Board of Trade, but for all other exchanges, when I say that we have no objection to a law of that kind, and clearly so, when your bill is simply a vindication of our own judgment.

Mr. TINCHER. And what you propose to do in your rules is a vindication of my judgment.

Mr. GRIFFIN. Yes, sir. [Reading:]

This exchange will constantly exercise supervision over its market. Its officials will, so far as humanly possible, prevent overspeculation. Their task is a delicate one and fraught with grave dangers, if not handled judiciously. Any attempt to impose restrictions or limitations on the volume of trading by individuals might so impair the open market as to bring chaos, not merely to the producer, but to all commercial and financial interests as well.

Any act which in any respect interfers with constancy and liquidity of the markets for farm products would likely cause complete prostration of business.

I wonder if you want me to go on reading.

Mr. JONES. Have you that statement printed?

Mr. GRIFFIN. Yes, sir.

Mr. CLARKE. Have you a number of copies?

Mr. GRIFFIN. No, sir; I have only this one copy.

Mr. CLARKE. Then, I think you had better continue to read the statement.

Mr. GRIFFIN. It is quite a voluminous statement.

Mr. JONES. I would rather hear what you have to say.

The CHAIRMAN. The statement will be included in the record, and you may proceed with your statement.

Mr. GRIFFIN. I thank you.

(The balance of the report follows:)

MARKET MANIPULATION.

That manipulation of the grain markets has occurred in the past is an admitted fact. Such manipulation, however, has usually been attempted for the purpose of forcing prices upward. Manipulators have been inspired by the belief that it would be possible for them to buy a greater quantity of contract grades of grain than could be delivered at the time and place of delivery for which the contract called. At times such manipulation has been successful; more often it has failed. The Chicago Board of Trade, for years past, has bent its efforts towards preventing such attempts at manipulation with such success that manipulation has practically been eradicated. Lower grades of grain have been made deliverable on contracts, and grain may now be delivered in freight cars on future contracts the last three days of the delivery month, and in emergency every day of the month, instead of only in store, as formerly; furthermore, rules have been passed providing for harsh discipline against manipulators all of which has helped materially to wipe out the evil. During the war period the small supplies of grain would naturally have encouraged manipulation had it not been for the changes in delivery details, and for the disciplinary measures rigidly enforced. As the result of these corrective measures manipulation was practically unknown. Enforcement of our present rule is all that is needed to prevent such manipulation.

SHORT SELLING.

The belief that the grain markets can be manipulated downward, that short selling can successfully and permanently reduce prices is erroneous, and is based on lack of knowledge of the markets and of economic laws. In an open world's market, such as the grain market, downward manipulation is impossible, with this exception, that a short seller might throw large quantities of sales into the market and break prices while the selling was in progress, or until the prices at which the grain was being offered were disseminated throughout the world, and the world's buyers became aware of the values at which the grain was being offered. Should the short seller offer grain below its legitimate value, the world's buyers would flock to the market with their orders to take his offerings off his hands. The short seller does not add

to the supply of grain; on he other hand, he has a legally enforceable contract which he can satisfy only by one of two methods; first, by making a counter purchase in the same market in which the sale was effected, or, secondly, by entering the commercial market, buying the actual grain, and delivering it to his buyer on the contract. The short seller is always at the mercy of the buyer or of the owner of the grain, for he sells something which he does not own and he must buy that something back. If he buys back in the open market, his purchases would naturally advance prices to the extent that his sales had forced declines. If he buys the actual grain to deliver, it would be unreasonable to assume that he could buy this grain below its true legitimate value. The short sale, when made, is not a transaction in cash grain (although it becomes a cash transaction at the maturity of the contract) and since cash grain prices are determined by the present actual supply, the cash grain can not be materially influenced by an offer to sell short for future delivery. Where there is a short sale for future delivery and the delivery month subsequently arrives, the short seller unless he has previously covered in the open market, must then buy cash grain with which to make delivery under his contract. The short seller thus forcibly becomes a cash buyer and any influence of his cash purchase would be for higher and not for lower prices. In reality, speculative short selling is a stabilizing influence in the market, for each short seller creates a buyer in himself. To eliminate short selling would destroy the usefulness of the futures market for hedging purposes, just as surely as would the elimination of speculative buying. Should attempts be made to manipulate the market downward our rule against manipulation would be rigidly enforced, and offenders disciplined. Such manipulation would be unprofitable, for should a seller sell more grain than he could deliver, he would be penalized under our rules to the extent of 5 to 10 per cent of the commercial value of the grain.

The futures market, the basis of which is organized speculation and upon which is built the entire hedging system of price insurance, moves our surplus grain crops with greater economy and efficiency than would be possible by any other method. Realizing the great economic service which is thus performed by organized speculation, we can not consider recommendations for restrictions which would hamper hedging facilities and destroy the economic usefulness of the market.

PRIVATE WIRES.

In considering the question of private wire offices in small towns and villages, the directors of the Chicago Board of Trade recognize that the private wire is of unquestioned usefulness to the country shipper, but the valuable service accruing to the country shipper is offset by the evil incidental to much incompetent speculation which is encouraged by ill-advised solicitors in country offices. Therefore, the directors of the board of trade believe that permission should be refused to open offices by members in towns of less than 25,000 population, unless such offices are under the direct, personal, local management of a member of this association, and this policy should apply to all offices, new and old.

SHORT TRADING PERIODS.

The directors are not in favor of limiting trading in futures to periods of 60 or 90 days, or to any other period. Short trading periods would be undesirable from the standpoint of the farmer who wishes to hedge his grain, likewise would militate against the grain dealer or distributor who was carrying surplus stocks at the moment unsalable, and also would preclude sales by millers, and manufacturers, of the products for forward delivery, which under present custom they protect by making purchases for future delivery. At present, all months are trading months, but by common consent, the months of May, July, September, and December are the active trading months, for the reason that they serve the most useful purpose in their relation to the marketing of the various crops.

CENSORSHIP.

The strict censorship of market news is a duty which we can not avoid, nor do we desire to avoid it. While false and misleading reports are probably no more numerous in the grain business than in any other line of business, still our facilities for transmitting news items of all kinds result in a wide dissemination of these reports in a short space of time. It should be remembered, however, that the same facilities are used for the prompt correction of such reports, but momentarily they sometimes affect the markets. We are in favor of a competent and aggressive censorship department, under the paid supervision, if necessary, of some one capable of per-

forming satisfactorily the service of such a department. We believe also that other exchanges should adopt the same policy, and that the departments of the various exchanges should act in correlation in order that offenders might be detected and disciplined by the exchange or exchanges of which they are members.
(Unanimously adopted by board of directors.)

Gentlemen, I wish to heartily indorse everything uttered by Mr. Wells during his presentation on the stand yesterday. I do it without quibble or equivocation. At the same time I should like to somewhat dissent from the testimony of Mr. Quinn. I should like to make it clear in your minds that Mr. Quinn not only did not represent the Chicago Board of Trade, but he failed to represent any other exchange. His organization is made up of grain dealers, usually not members of exchanges. There are few members of exchanges who are members of his organization. In answer to a number of your questions he undertook to speak not only for us, but for other exchanges, and his answers were not correct. I should like to have you understand, without being offensive to Mr. Quinn, that he did not represent any one exchange in the United States in his appearance here, but rather the Grain Dealers' National Association.

As I have sensed the situation before this committee, the only measure that is receiving your serious consideration is the so-called Tincher bill. In principle, I heartily indorse the Tincher bill. I do so because, unlike other measures, I deem it to be constructive. It is constructive, and unlike other measures because it does not seek to tear down and destroy the existing machinery for farm products without providing any substitute. It is further constructive because it proposes to abolish practices or abuses which, while perhaps not immoral or illegal, have no particular trade or economic value and may be deemed as wasteful. I further indorse the bill because, as I understand, it recognizes the necessity for hedging; second, the bill recognizes that there can be no hedging without future trading; and, third, the bill recognizes that there can be no future trading without speculation—there can be neither hedging nor speculation without future trading. The bill does not defend the present system of marketing grain, but rather, as I understand it and view it, it provides that the existing machinery should be used until a better and improved substitute can be developed.

Now, the Tincher bill accomplishes, in my understanding, all of the objectives I have set forth, and consequently, except in a purely practical sense, I have no opposition to this measure.

As I go along, section by section, I propose to offer suggestions, and in offering these suggestions I am naturally going to use my own language, not that I expect, if you accept my suggestions as having any weight or force, that you will do otherwise than in your own way apply the necessary legal language.

If I may, we will proceed to the consideration of section 3. Section 3 is the subject matter which I have already discussed; in other words, indemnity transactions. As you have observed from the reading of the report of our board of directors, we have already decided to abolish indemnity transactions, and the action of our board has received the concurrence of other grain exchanges. I should like to say that frequently our exchange has abolished trading in these indemnity transactions. I recall about 15 years ago that the Chicago Board of Trade revoked the rule and the trading in these trans-

actions was then transferred to Milwaukee. The result was that Milwaukee, which was a comparatively unknown futures market, as a result of the Chicago market forbidding these transactions at once enjoyed a trade of huge proportions. We feel that these transactions do permit persons to overspeculate, and as I have already touched that question I will dismiss section 3 by saying that we agree with the bill.

Mr. TINCHER. Do the words "puts and calls," "indemnities," or "ups and downs" sufficiently describe that?

Mr. GRIFFIN. I think so. In our rule we do not use any of those words. We call them "contracts for deferred acceptance," but in the vernacular they are "puts and calls," "ups and downs," and "bids and offers."

Mr. TINCHER. I think the word "indemnities" would cover whatever contract you did use?

Mr. GRIFFIN. Yes, sir. Shall I proceed?

The CHAIRMAN. Yes; you may proceed, Mr. Griffin.

Mr. GRIFFIN. If I may, I should like to direct your attention to section 4, subdivision (a). In my opinion subdivision (a) is surplusage, or, if it has any weight, I suggest that not only should the owner of the actual physical property be covered by that section, but also the man who has a contract of purchase which puts him in exactly the same position as if he had already acquired possession of the property. Personally, I do not see the force nor necessity of subdivision (a) in view of what follows in subdivision (b).

Mr. TINCHER. I direct your attention to the fact that subdivision (a) excludes from the provisions of the bill the necessity of making the memorandum which is required in subdivision (b). To be plain with you, I did not intend to force the man who actually produced grain and sold it to make any written memorandam of the sale of his grain.

Mr. GRIFFIN. Mr. Tincher, the same obligation is imposed under subdivision (b) as under subdivision (a) as to the memorandum, because the connecting word "or" follows subdivision (a).

Mr. JONES. Subdivision (a) absolutely exempts the owner of the actual physical property from making any record at all; it is inclusive in itself.

Mr. GRIFFIN. If that is true I did not understand the situation.

Mr. TINCHER. That is the object of subdivision (a).

Mr. GRIFFIN. If that is your object, may I suggest again, why should not the man who buys from the farmer be exempted for the same reason, that delivery may not have been consummated, but is not he potentially in the same relation, does he not occupy the same relation as the man who has acquired possession?

Mr. TINCHER. There is not much buying of the farmer until there is possession.

Mr. GRIFFIN. Yes; you are mistaken, Mr. Tincher.

Mr. TINCHER. You have to draw the line somewhere. I propose to exclude a certain part of the trade from making the memorandum and propose to include a certain part. Perhaps, I have not drawn the line in the proper place.

Mr. GRIFFIN. I think in the case of the bulk of the farmers the sale precedes the delivery. It is not simultaneous as a good many persons

think. The farmer usually sells his grain for delivery the next day or next week or next month or next two months hence.

Mr. TINCHER. In my country he hauls it in and sells it.

Mr. GRIFFIN. That is not the general practice. However, my suggestion seems to carry no weight and I will proceed to subdivision (b):

That persons, who are at the time of the making of the contract, regularly engaged in the business of growing, dealing in, or manufacturing grain or grain products, etc.

At the conference yesterday the sponsor of the bill suggested that the word "regularly" be eliminated, and I heartily concur in that.

Mr. TINCHER. I made that suggestion in answer to the criticism made by Mr. Wells. I will frankly say that I have never been able to entirely satisfy my mind with the wording of subdivision (b). I do not know just how that should be worded. I suggested taking out the word "regularly" to prevent certain people from being included. I am sure that I do not want to adopt the language suggested by the gentleman from St. Louis, because that would have a tendency to make a preferred class out of the members. I do not want to do that. Neither do I want to bar any man who wants to buy and sell grain.

Mr. GRIFFIN. I am sure your objective is clear.

Mr. ASWELL. If you strike out the word "regularly," what about the words "dealing in"?

Mr. GRIFFIN. I think that needs amplification and explanation.

Mr. TINCHER. How would "buying or selling" do instead of the words "dealing in"? I have further examined my notes in the office and I find that it originally was "regularly engaged in the business of growing, buying, or selling, or manufacturing grain or grain products."

Mr. GRIFFIN. There are many men who have various lines, some may be bankers and grain dealers or millers.

Mr. TINCHER. I rather think that the word "regularly" got in the bill without sufficient consideration. As to the words "dealing in," the more I think about them the less I think of them. They are rather subject to the criticism of being vague and uncertain. If we should strike out the words "dealing in" and substitute the words "buying or selling," how would that be?

Mr. GRIFFIN. I think that would be an improvement.

Mr. TINCHER. That is the way I originally put it in; I do not know how I happened to change it.

Mr. JONES. You have in there the words "engaged in the business," and it seems to me that the word "regularly" is not very important.

The CHAIRMAN. Your suggestion, Mr. Tincher, is to take out the words "dealing in" and insert the words "buying or selling"?

Mr. TINCHER. Yes; I do not want to bar anybody from buying or selling grain.

The CHAIRMAN. I mean on the exchange?

Mr. TINCHER. Yes, sir.

The CHAIRMAN. Where would the restriction come in?

Mr. TINCHER. By the publicity and the power of the Secretary of Agriculture to cancel the designation of a market place.

Mr. KINCHELOE. Suppose the word "regularly" stays in, that would confine it to those in the business all the time and make it probably exclusive.

Mr. ASWELL. "Engaged in the business," would not that mean practically the same thing as regularly?

Mr. JONES. A man would only have to be in the business a short time.

Mr. GRIFFIN. As I understood the discussion yesterday, while Mr. Wells was on the stand, there would have to be some change, that otherwise we would have no hedging market. Having that in in view, "regularly" is too restrictive, and if subjected to the interpretation of a court it might defeat the object of this committee. I believe that the suggestion of Mr. Tincher would improve the bill. I could make a further suggestion, and that would be following the words "growing, buying, or selling," the insertion of the words "for present or future delivery."

The CHAIRMAN. With that, any merchant operating a store and also a mill would have the privilege.

Mr. GRIFFIN. With the word "regularly"?

The CHAIRMAN. Yes, sir.

Mr. JONES. You know, Mr. Chairman, that many of our grain merchants have other activities.

The CHAIRMAN. When you strike that word out you open the flood gates and let everybody in; there would be no restriction on speculation, none whatever.

Mr. GRIFFIN. Oh, yes.

The CHAIRMAN. Take Mr. Moffitt's statement yesterday: He said that this law would restrict operations from 10 to 15 per cent. You propose to leave that out and that will open the door wide to everybody and there will be no restriction on speculation.

Mr. GRIFFIN. If I may say it, I think that you did not grasp what Mr. Moffitt had in mind. I think that Mr. Moffitt was speaking of the loss of business by the discontinuance of indemnities—reducing the volume of trading.

The CHAIRMAN. His remarks applied to this particular provision of the bill.

Mr. GRIFFIN. I do not happen to remember his comment on that.

Mr. TINCHER. Before you go any further, so I will not forget——

Mr. GRIFFIN (interposing). No merchant and no man who has a mill and a store would be barred even with the word "regularly" in there.

The CHAIRMAN. But would it exclude the individual who buys ten or twenty thousand bushels?

Mr. GRIFFIN. I contend that you have to read the whole bill together and take into consideration all provisions in order to get an answer.

Mr. TINCHER. My answer is that it will exclude the manipulator on the market. If a man wants to go on the board of trade of Chicago and sell a million bushels or 5,000,000 bushels and he is not in the business, when he makes out his card to make the transaction and has got to furnish the memorandum to the exchange the practice will be discounted, and the exchange will not engage in it. My notion is that this bill will prohibit manipulation. I may be wrong.

Mr. GRIFFIN. Your contention is that it will be a check by the exchange—that the futures market will be supervised in that way?

Mr. TINCHER. That is my understanding.

Mr. GRIFFIN. Yes, sir.

The CHAIRMAN. With no restriction on the trading?

Mr. GRIFFIN. Not in trading.

Mr. TINCHER. Mr. Moffitt said that by doing away with the indemnity—I may not be correct, and if Mr. Moffitt is here I should like to have him correct me—that 15 per cent of their business would be lost with the stopping of the indemnity and that this provision would affect another 10 per cent.

Mr. GRIFFIN. Having the same understanding in mind as that expressed by Mr. Tincher, I think he has made a happy suggestion to eliminate the words "dealing in." I suggest in lieu that there be inserted "buying or selling for present and future delivery."

Mr. JONES. "May enter into contracts for future delivery," does not that cover the same thing?

Mr. GRIFFIN. I do not know which section you have in mind.

Mr. JONES. The next line after that, "dealing in, or manufacturing grain or grain products may enter into contracts for future delivery."

Mr. GRIFFIN. Of course, you do not require that permissive clause for persons actually dealing, but there are others——

Mr. CLAGUE (interposing). If you put a comma after the word "products," then it covers everybody.

Mr. TINCHER. I think that the words "buying or selling" for "dealing in" will cover it. Those men enter into contracts for future delivery.

Mr. JONES. I think that covers it.

Mr. GRIFFIN. I think that Mr. Wells explained to you gentlemen in a very lucid manner that the miller, the grain dealer, and others could not hedge their transactions without the presence of the speculator. That class of people, the merchandiser and the manufacturer, avoid speculation in their business because of the existence of the second class, viz, speculators. My thought is in framing this subdivision (b) to have the language so clear that these underwriters, these speculators, as you call them, would have the privilege to trade in the market. Mr. Wells referred to the case of a man buying 5,000,000 bushels of wheat—buying it when there was no consumptive demand and buying it simply because he could make a future transaction in the market.

Mr. JONES. In other words, to broaden the class engaged in it?

Mr. GRIFFIN. Yes, sir. The hedger does not take the hedge of any other man. Mr. Wells stated that he had 5,000,000 bushels of oats and had hedged those oats in the Chicago market. I may be mistaken about the figures, but he is carrying those 5,000,000 bushels of oats. Mr. Wells is physically carrying the oats in his elevators, but the risk is being carried by the speculator who has bought his contract of sale. He has eliminated from himself all risk of loss from price fluctuation. May I say that his risk otherwise would be ten thousand times greater than the risk of loss by fire. The decline in grain in the last year would have wiped out practically every man engaged in the grain and milling business in the United States if it were not for the hedge.

Mr. JONES. With your expression in there, it would make it practically unlimited?

Mr. GRIFFIN. I think it should be unlimited. You can not have insurance if you do not have the underwriters. The underwriters are the men who, as a rule, are not engaged in milling and merchandizing, and who do not conduct elevators. The cash merchants avoid speculation. They avoid this risk because of the existence of the other class, namely, speculators.

Mr. TINCHER. I will say frankly that Senator Capper and I took the hearings and I introduced the bill after a very hurried conference and with such little information as we could get on the subject. We put in the words "dealing in." There is some question whether, if you pass a law saying that a certain class of men can do a certain thing and that a certain other class can not, there will not be some question about the validity of the law. I am not agreeing with these men here who criticize the terms of the bill at all. One-half of the meaning of this would be all right, but I do not believe that we could pass a law affecting a certain class of men and not affecting another class. I do not know how to make it any broader than to use the words "dealing in," but the words never did exactly suit me and they do not suit anybody else, and, everything considered, they are vague and uncertain.

Mr. KINCHELOE. Do you intend to include everybody who deals in grain, either for present or future delivery?

Mr. TINCHER. Yes, sir. For instance, you could not include just a limited class.

Mr. KINCHELOE. No; I do not believe you could.

Is it your idea that the speculator who, as you say, is carrying the risk is not a dealer in grain?

Mr. GRIFFIN. He may or may not be.

Mr. KINCHELOE. There may be times when he is not?

Mr. GRIFFIN. If you listened to my suggestion—perhaps you did not—I suggested a clause "present or future delivery," which would clearly include the right of all classes to trade in future contracts, thus furnishing hedging facilities, and carry surplus grain when producers were unable to do so.

Mr. KINCHELOE. I think you are wrong. I think this other proposition meets that. But on the question of whether he would be permitted to operate at all, these men, these manipulators and speculators, are not actually engaged in grain dealing, are they?

Mr. GRIFFIN. I think that every attempt to corner or manipulate the market has been perpetrated by men in the trade. I can not now recall any manipulator who was not actually engaged in the trade in some branch or other.

Mr. KINCHELOE. What about the speculator?

Mr. GRIFFIN. The speculator is not a manipulator.

Mr. KINCHELOE. I understand that.

Mr. GRIFFIN. The speculator is you and me and everybody else. A man in the merchandising business is not a speculator. He avoids speculation by hedging.

Mr. KINCHELOE. I understand that, but the man I had in mind is the speculator. You say he carries the risk?

Mr. GRIFFIN. Yes.

Mr. KINCHELOE. And not Mr. Wells, as your illustration showed awhile ago?

Mr. GRIFFIN. Yes.

Mr. KINCHELOE. Now, are there any dealings in which he is engaged in this business of carrying the load when he is not a dealer in grain?

Mr. GRIFFIN. He deals in grain, but that is not——

Mr. KINCHELOE (interposing). Then why would not this cover it just as it is already written in the bill?

Mr. GRIFFIN. Because, I think if this was in a court record they might construe that as an occupational restriction. I may be a banker, or I may be a broker, or I may be a boot and shoe man, and I may deal in grain, but when you go to interpret a statute of this character, when it comes into court, the court may put an interpretation that neither the father of the bill or any of you gentlemen contemplated, and my suggestion was made for the purpose of clarification.

Mr. KINCHELOE. That might be true if you leave the word "regularly" in there, but with that out I think that would cover it.

Mr. GRIFFIN. I do not lay so much stress on the term "regularly." I simply thought that was surplusage, and that it might exclude, through a misunderstanding or a misinterpretation of the statute, a man who had several activities.

Mr. KINCHELOE. I think it would. If you leave the word "regularly" in I think that would make it very restricted.

Mr. GRIFFIN. And I am afraid it would entirely eliminate the man who is carrying the load, the speculator.

Mr. JONES. The way it is expressed that class is limited, there is no question about that.

Mr. GRIFFIN. Gentlemen, we might as well be frank with each other, and I want to tell you that the hedging market, without the speculator, is like Hamlet without Hamlet. It can not exist. There can be no broad market, there can be no open, competitive market, without the speculator.

The CHAIRMAN. Then to what extent do you want to restrict speculation. Who do you want to exclude?

Mr. GRIFFIN. I do not want to exclude anybody.

The CHAIRMAN. You want to throw it wide open to everybody?

Mr. GRIFFIN. Exactly. I think it is a constitutional right to make a contract.

The CHAIRMAN. Then what is the use of this entire section, if the author of the bill says it is of no value except with reference to the publicity?

Mr. GRIFFIN. I think it serves a very useful purpose, if I may say so, Mr. Congressman, because if you will read the concluding part you will notice that those persons engaged in that business are put under the compulsion of keeping certain records.

The CHAIRMAN. The proposition with reference to keeping a record of transactions is a different proposition.

Mr. GRIFFIN. I know, but as Mr. Tincher says, he believes there is manipulation. Now, let us assume he is right——

The CHAIRMAN (interposing). What is the use of writing a bill to prohibit speculation and then putting in the bill language authorizing it or legalizing it.

Mr. TINCHER. I did not write a bill to prohibit speculation. If the gentleman will pardon me, I would like to answer the chairman. I notice here this morning on our table a bill introduced yesterday by a gentleman who is a good thinker and who is not only familiar

with the grain situation to a great extent but has also paid attention to the hearings we have held on this matter and has had copies of the hearings, and has examined them, and I am glad to notice this morning that he has introduced a bill on the subject. I refer to Mr. Evans, of Nebraska, who is from a wheat growing section. He has evidently taken this position—and I heard a good deal of testimony in support of it, and no less a person than our present Secretary of Commerce advocated the proposition, and Clifford Thorne thought probably it might be a good idea, and he is getting at the matter by preventing speculation or at least limiting speculation, but he has a proviso in his bill: "*Provided*, That the provisions of this section shall not become effective until two years after the passage of the act." Now, there is no such provision as that in my bill. Why? Because I have not tried to stop certain of the trades in grains. You can not read one section of a bill and then say, "This bill does not do anything." You have got to read the whole bill. It is a little like the Bible; if you take one section of the Bible and read it and discard the rest of it, chaos would probably reign in this fair land of ours instead of decorum. My notion was this, to pass a law that would take effect immediately and give the Government information on these transactions and to stop such of the abuses as every one is willing to stop now who has given any thought to the matter, and then to operate for two years. Congress will not die in two years, and if based on these records we are going to have and based on the facts we are going to have, and with the Government supervision we are going to have, if we want to stop speculation in grain, then do it, but not simply rush in now and stop speculation in grain and not offer any other marketing system. That is exactly my position on the bill.

I regarded Mr. Hoover's testimony, for instance, as the testimony of a disinterested witness. I regarded Mr. Thorne's testimony as the testimony of a man of ability who was employed to present the side of the farmer to this committee in the very best light that he could. Based on those propositions I introduced this bill—or rather Senator Capper and I based it on such information, going over it the best we could with the farmers. Now, that is exactly my theory of the legislation.

The CHAIRMAN. I am in sympathy with the idea that speculation is necessary to afford hedging, and I do not think there can be any question about that, and if speculation is lawful and is engaged in now why should we write a bill and authorize speculation. If we are to deal with publicity, which I think is of great importance and if all that is necessary, why write a long bill?

Mr. TINCHER. If the chairman has amendments for any sections of this bill that he wants to present, I would be glad to have them considered.

The CHAIRMAN. Nobody seems to be able to draft such an amendment. When you say that nobody shall be excluded and then they admit that everybody is admitted under present practice——

Mr. TINCHER (interposing). Of course, you say it does not have any effect, but you have read only three lines of section (b) and I think the meat of the whole thing is after line 2 in the same section.

The CHAIRMAN. I appreciate that, but I have not been able to understand just where you are going to draw the line. When you speak of a dealer, it is a question in my mind as to who is a dealer.

Mr. TINCHER. I was not drawing any line except this line: In section 4 there is this line drawn, that a man can sell his grain and not make any memorandum of it and does not have to keep any record, but all other classes that sell grain and deal in it have to make a memorandum and furnish the information, and that is the very same information that we spent months trying to get concerning this gentleman's board of trade, and there was not any such information available for the purpose as I provide for in this bill.

Mr. GRIFFIN. Not for the public. There is a private record kept, but not for the public.

Mr. CLARKE. In other words, you are laying the basis through this bill for further legislation.

Mr. TINCHER. Hoping that the trade will be so conducted that no further legislation will ever be necessary, but if it is and we do come to the point in this Government where we have to prevent and ought to tear down this whole marketing system, which the elimination of all speculation will do, at least wait until we have something to offer for it.

Mr. JONES. As a matter of fact, by broadening this class and including practically every one, you do say they can engage in contracts for future delivery, but you say they can engage in them only on the conditions in the remaining portions of the bill. They can trade subject to those conditions, and we can levy such conditions as we want. Simply including all of them in that classification there does not throw open the floodgates. It simply says that all these people may trade subject to these conditions.

The CHAIRMAN. Under the language suggested in the amendment, who would be excluded?

Mr. JONES. There would not be anyone excluded, but they must trade according to the conditions laid down in the bill, and you can write any condition you want to, if these conditions are not strong enough.

Mr. TINCHER. I will tell you who will be excluded, the boy from Tom Williams's district who went to St. Louis and dealt on the market to the extent of $80,000. If there had been a record of that so that he could not have slipped in there surreptitiously the bank would not have been broke and the boy would not have been able to have made those trades. Mr. Moffit, I think, was right about this. Even broadening that language will narrow the trade somewhat, and the enactment of this law will stop speculation to some extent.

Mr. GRIFFIN. Unquestionably, and the danger is, Mr. Congressman, that you may narrow it too much so that you will kill off a broad market. Now, may I proceed, Mr. Chairman?

The CHAIRMAN. Certainly.

Mr. GRIFFIN. I was just suggesting, following the thought of the sponsor of the bill, to accept his suggestion, which, of course, you will do if you see fit, to substitute for the words "dealing in" "buying and selling," my suggestion is to follow that with the phrase "for present or future delivery." I think that clears it up beyond all question of doubt.

The CHAIRMAN. Where does that come in?

Mr. GRIFFIN. After the word "in" on the first line of page 3.

Mr. THOMPSON. So that it would read "engaged in the business of growing, dealing in for present or future delivery."

Mr. GRIFFIN. Or manufacturing grain or grain products, and so forth.

Mr. KINCHELOE. And then you go right on there and in a redundant way say that the manufacturer of grain and grain products may enter into contracts for future delivery.

Mr. WILLIAMS. This is merely a descriptive term that Mr. Griffin suggests.

Mr. TINCHER. We will have to read the bill, I suppose, after we get through the hearings, for amendments.

Mr. GRIFFIN. Now, as to the latter portions of the bill, Mr. Chairman and gentlemen, the rules of our exchange and every other exchange, imposes that obligation on our members to-day. A member must preserve a record of his transactions. He must send a memorandum of the transactions to his customer, disclosing the person with whom the trade was made. Furthermore, there are other regulations such as the income tax regulations and regulations of the Bureau of Internal Revenue covering a small tax on our transactions which would require that to be done, so that so far as the individual himself is concerned, those records are now and have been for a number of years available for the Government at any time.

Mr. TINCHER. Now, that is one of the provisions of my bill that Mr. Wells discussed. That depends a little on the way you are operating your exchange because, that is the provision Mr. Wells criticized——

Mr. GRIFFIN (interposing). No; I was speaking, Mr. Tincher, as to the obligation upon the individual. Mr. Wells's criticism or objection was to the obligation upon the exchange itself keeping those records.

Mr. TINCHER. I think the obligation ought to be on the exchange. I think the individual could furnish that information to the exchange without any serious work and I think there ought to be a definite place where the Government can go for that information.

Mr. GRIFFIN. But you impose the obligation on the exchange to see that none of these practices is violated, and the exchange will take care that they are not violated, Mr. Congressman; for instance, on the Chicago Board of Trade to provide and keep up the record that you suggest in a later paragraph—I think it is subdivision (b)—I will venture to say would require on the Chicago Board of Trade a clerical force of from 500 to 1,000 people. I have just estimated that. It is hard to conceive the vast amount of work, because you require not only a record of the future transactions, but of the cash transactions, and I wish to say to you, sir, it would be a hopeless muddle.

Mr. THOMPSON. And there would be quite an overhead expense.

Mr. GRIFFIN. There would be an enormous expense, and somebody would have to pay it. It would be passed on to the producer and consumer.

Mr. KINCHELOE. How could the Secretary of Agriculture get this information unless he had some central source to go to?

Mr. GRIFFIN. He could get it from the individual members.

Mr. KINCHELOE. He could not go to each individual member and get it. He would have to have a search warrant out all the time to do that.

Mr. GRIFFIN. No, sir; may I differ from you about that? When a man makes a transaction on the exchange, he must make it through a firm doing business on that exchange, and that firm has books and records and they are available at any time. As a matter of fact, and as a practical question, if you are investigating a certain situation, for instance, you might think Smith is manipulating the market. You can investigate it much easier through the individual houses than you can by having the collective information.

Mr. KINCHELOE. How many different firms and individuals are there doing business on your board?

Mr. GRIFFIN. Two hundred in Chicago.

Mr. KINCHELOE. So the Secretary of Agriculture would have to round up those 200 firms in order to get the information.

Mr. GRIFFIN. Exactly. He would have to do that but he would simply call for certain books and papers and figures.

Mr. KINCHELOE. And then we would have to enlarge the clerical force of the Department of Agriculture in order to get the information.

Mr. GRIFFIN. Not at all. In my opinion the law now compels or would compel any citizen to furnish the information that was sought.

Mr. TINCHER. Now, I want to talk to you a little about this question. We are apart on it. There are 200 firms doing business on your board of trade.

Mr. GRIFFIN. In Chicago.

Mr. TINCHER. If each one of them would have to hire an extra clerk to make out these reports, that would take but 200 clerks, and therefore you will have to reduce the number of employees that you stated, because one clerk would certainly be all that would be necessary.

Mr. GRIFFIN. No; you misunderstood me. I do not believe it would require any extra expense or any extra clerical help for the individual firms, but, in a later subdivision under subdivision (b), I think it is, you place that obligation upon the exchange. It is a duplication of effort, and the exchange not being in the business of keeping these records, etc., would be put to a vast expense.

Mr. TINCHER. This is what I contemplated: I thought the exchange could require the members that did business on it to furnish this information to the exchange periodically, daily or whatever was necessary, and I thought they could do it, as you suggest, without any particular extra work; that they could make a duplicate sheet for the exchange, and that would be furnished to the exchange and the exchange could require them to furnish it.

Mr. GRIFFIN. Now, Mr. Tincher, will you imagine a situation, for instance, where all of you gentlemen here are members of the Chicago Board of Trade, engaged in business. I am also engaged in business and I am your competitor.

Mr. TINCHER. I do not have to imagine it, because I was in the business under the Barnes reporting system.

Mr. GRIFFIN. Yes; now, for a moment imagine, if you can, that we are all in business here and are all competitors. I am president of the Chicago Board of Trade, and under the regulation you have outlined, all of your private business is going to be disclosed to me. Do you think that is fair?

Mr. TINCHER. Oh, yes. I do not see how it would hurt anything to have a report or memorandum of the sales and purchases dis-

closed to you. I do not know that it ought to be done that day, but I think that ought to be disclosed to you, and that record ought to be kept and ought to be available for the Secretary of Agriculture without his having to go around, as you suggest, to the 200 firms, and so on.

Mr. KINCHELOE. You, as president of the Chicago Board of Trade, would not be interested in any of the transactions that we would make, would you?

Mr. GRIFFIN. Oh, Mr. Congressman, if I were St. Anthony I would not want that responsibility put upon me—the confidential, private business secrets of my competitors.

Mr. KINCHELOE. But you are not a competitor. You are the president of the board of trade.

Mr. GRIFFIN. But I am also in business. You understand, Mr. Congressman, that the president of the exchange is not a salaried officer. I am actively engaged in other business. The presidency is purely an honorary office.

Mr. KINCHELOE. Could not your board or exchange, through its directors, delegate some disinterested party to receive this information and have it available for the Secretary of Agriculture?

Mr. GRIFFIN. That disinterested officer would be dominated by the president and the board of directors of the board of trade, and I do not think that is fair. I think it would be a dangerous practice to compel any set of business men to disclose to their competitors or to anybody else, except a disinterested agency like the Government, their business secrets. I do not object to the figures being available for the Government, but I do object to the expense, and I object to the disclosure of private business. The Government has a right to the information. I say they are welcome to it, and I am in favor of their having it, but I object to having it myself. I am president this year, but I may not be president next year.

Mr. CLARKE. How do you want the Government to get it?

Mr. GRIFFIN. I want the Government to get it by changing that subdivision and making it compulsory upon the individual transacting business to keep a permanent set of records, which, upon request, will be exposed to any agency of the Government that may make a demand upon him.

Mr. KINCHELOE. How many members would you say belong to the various exchanges throughout the United States?

Mr. GRIFFIN. Five or six thousand. We have over 1,600 in Chicago. We have, I think, the largest membership of any.

Mr. KINCHELOE. I thought you said you only had about 200.

Mr. GRIFFIN. Two hundred firms. For instance, in my firm we have eight members of the board of trade. We have eight partners, but it is only one firm.

Mr. KINCHELOE. Under your idea of the Secretary of Agriculture getting this information, of course he would have to get it from the individuals as well as from the firms.

Mr. GRIFFIN. Not at all.

Mr. KINCHELOE. If the individual was doing business by himself?

Mr. GRIFFIN. The individual must do business through a firm. You understand that all this business is transacted through a machine known as the clearing house, and you have to be an organized firm and member of that clearing house as well as a member of the board of trade. All future transactions are cleared through machinery

known as the clearing house. For instance, you may be a member of the Chicago Board of Trade, Mr. Congressman, and not a partner in any firm. You might be a free lance of some kind and you may want to trade on the Chicago Board of Trade. In order to have your transactions cleared and carried out, you would come to me or some other commission man and we would clear your transactions. So if the Government wants anything, it is centralized in these 200 firms.

Mr. McLAUGHLIN of Nebraska. Does the clearing house have a record of every transaction?

Mr. GRIFFIN. No; our clearing house is not like the clearing houses in other markets. It is more or less a post office. All transactions are handled through them. The clearing-house balances are adjusted through that machinery. The difference between our clearing house and others is that we remain principals on all our contracts until they reach their maturity or until they are adjusted, whereas in other exchanges they have a corporation clearing house; the day following the making of the transaction the clearing house itself becomes a party to the transaction.

Mr. JONES. Mr. Griffin, let us assume that your suggestions were adopted and then that some of the members of the board did not furnish their written memoranda to the Secretary of Agriculture, and he got after you about it. Would you not then offer the excuse that it was not your fault that he did not file it, and how could the Secretary exercise the privilege of forcing compliance with this law? He could not penalize the board for what some member failed to do when the duty was not put on the board to do it.

Mr. GRIFFIN. Mr. Congressman, may I answer you by saying that I do not think it is a fair obligation to impose upon the board, to hold the institution responsible for individual shortcomings, and I would further suggest that you cover it by applying a penalty for anybody who fails to keep the records.

Mr. JONES. You mean put a penalty on the individual who fails to keep it?

Mr. GRIFFIN. Yes; exactly as you now do under the income tax law.

Mr. JONES. That would practically nullify the privilege given the Secretary of Agriculture to cancel the license of the board of trade in the event it did not prohibit these things, would it not?

Mr. GRIFFIN. No; I think you are opening up an entirely different question. We are now discussing the keeping of records and the question at issue is, Should that obligation be imposed on the exchange or the individual firm or corporation?

Mr. JONES. What I am getting at is if you simply impose it on the individual and do not impose it on the exchange, how can the Secretary of Agriculture, if he found it necessary even to take away the license of a board, do that, when the board was not at fault, according to the way you word it?

Mr. GRIFFIN. I do not think, for instance, that the board, if it undertook this obligation, could exact of its members that they be closer than two or three weeks or a month, because, naturally, we are very busy, and if an individual member was delinquent, under the law, as it is now worded, or as I interpret it, he would escape any liability, but the board of trade, the institution itself, might have its

license revoked by the Secretary of Agriculture, and I do not think that is fair.

Mr. JONES. But the board of trade could require him to do that.

Mr. TINCHER. I do think it is fair, and there is not any misunderstanding on the part of the author of the bill on that proposition. The purpose was to put that obligation on the board of trade because you have absolute jurisdiction and absolute power over that man. You can make him furnish you that report daily or weekly or whenever you want to, and if the Secretary of Agriculture can look to you for it you will fire him out of your board just as soon as he fails to furnish it. The Secretary of Agriculture may not want those reports once a year, but they ought to be available when he does want them, and you have the power to make that man give them to you whenever you want them; but I have not thought about this and I would like for you to explain it, and that is, what serious handicap it would be to a member of your board of trade to have on file, not available for the public, but available for the Government, in your office, these memoranda; how could that hurt him?

Mr. GRIFFIN. Do you mean in my personal office or in my official office.

Mr. TINCHER. In your official office.

Mr. GRIFFIN. The greatest objection is the practical one which I have suggested.

Mr. TINCHER. But you suggested the disadvantage of his competitor or of some one else knowing about his business.

Mr. GRIFFIN. Exactly.

Mr. TINCHER. In your official office, of course, no one would know it except as you would mix your official with your private business, which in your case would not be mixed at all, because you would not know it as an individual, and the only thing you would do would be to see to it that it was put on file there.

Mr. GRIFFIN. Following that out to its logical conclusion, Mr. Congressman, suppose that individual in reporting to us was delinquent in any respect, what then would be your idea? Would the exchange suffer for his delinquency?

Mr. TINCHER. I will give you the practical end of it and the way I had figured it out. A man from the Bureau of Markets, or whoever the Secretary of Agriculture might designate, would go out there and would go through these memoranda and he would call your attention to the fact that John Smith was delinquent, and would say, "Look at the kind of report he is filing here; he is not complying with this law." I would not then think it would be fair and right to cancel your license, and that would never happen, because they would not cancel your marketing privileges for that reason at all It would work too great a hardship on the country. Here is what would happen: Instead of the Government having to do something to John Smith, you have absolute power over him because he wants to retain his membership and you can turn him out that quick [indicating], and it would be up to you to look after the trading in that way. I think this is an important feature of the bill.

Mr. JONES. I think it is a practical proposition and I do not see how the Secretary of Agriculture could ever get at it at all in any other way.

Mr. TINCHER. I would not be in favor of revoking and taking away your designation as a marketing place simply because somebody would not file these reports, unless you should persist in not turning him out of the exchange, and of course you would not do that. You would turn him out if he persisted in not filing the report.

Mr. GRIFFIN. Exactly; but, unfortunately, when it came to the enforcement of the law, you might not be sitting as Secretary of Agriculture, and, with no reflection on the present or any future occupant, he might take snap judgment and arbitrary action, and if the exchange itself is perfectly innocent of any delinquency, I do not believe they should be placed in jeopardy under your law.

Mr. TINCHER. I do not want to punish them when they are innocent, but I do want to impose the obligation on them to see to it that that record is kept on file.

Mr. JONES. Could they not be protected sufficiently by granting an appeal to the courts, which was suggested here yesterday, and still have this provision so that the Government would be able to get at the information if it became necessary?

Mr. GRIFFIN. I have been turning the matter over in my mind here and I think it could be accomplished. I certainly would not want to be placed in the position of being the custodian of my competitors' business secrets. It is a relationship I should not be expected to occupy, but this might be done: They might be compelled to file these reports under seal or something of that kind.

Mr. JONES. Or have a serial number and file them by numbers.

Mr. GRIFFIN. Have them preserved in the files of the board of trade and open only to a Government official; but then, how are we going to keep track of it, gentlemen, if we do not examine it and study it and analyze it? There, again, is the practical objection.

Mr. JONES. Could you not file it by a serial number and not use names at all.

Mr. TINCHER. What Mr. Griffin means, how would he know what was under that seal unless he examined it.

Mr. JONES. Yes; but I say, to have it sealed and to use a serial number instead of a name.

Mr. TINCHER. When he does examine it suppose he finds out how much grain Armour & Co. has bought or sold through this commission company and he gets all the business secrets of his competitors, I wonder how much harm it would be, after the transaction was over, in knowing that it had transpired.

Mr. GRIFFITH. Let me explain to you——

Mr. JONES. Let us get this other matter clear first, as to the suggestion Mr. Evans made a moment ago that they not use the name of Armour & Co. but let them file it by number and have these transactions numbered rather than named.

Mr. TINCHER. But I want the names too.

Mr. JONES. Of course, have the names, but not have them filed with the officials of the exchange.

Mr. TEN EYCK. What is the reason the board of trade should know about this during the annual year. Why could they not come in sealed and by rule of the board of trade itself and be held there for the Government, and when the Government desires the information at any time on account of peculiar conditions that might arise in the

country in relation to the sale and purchase of wheat, they could go there and open them up.

Mr. CLARKE. Why could they not better be transmitted to the Government under seal or in a confidential way.

Mr. KINCHELOE. It seems to me you are really anticipating something that will never happen. If you go to the extreme of presuning that a Secretary of Agriculture is not going to do his duty or that he is going to be biased about it, of course, you can not lodge power anywhere. Suppose they are sealed, then the record is for the Government and not for the exchange, and not for you as recretary, but is a Government record. Now, as Mr. Tincher says, suppose this is the law to-day and the Secretary of Agriculture sends some man out there to look at the Chicago Board of Trade's records. He goes to you as secretary and says, "I am the representative of the Secretary of Agriculture, and I have come out here to examine your records." You will say, "All right, here they are." They are sealed, with no names attached to them, although, of course, the names are on the inside. He tears them open and examines them and here is a report from John Smith that is not satisfactory to him. He is not going to revoke the license of the whole Chicago Board of Trade, but will say to you, "Here is a man who has not given the correct report." He will say to you, "You have it in here in 30 days," and as Mr. Tincher says, you have absolute power over that man, and you would immediately get in touch with John Smith and say to him, "The representative of the Secretary of Agriculture has been here and is dissatisfied with the report you have sent in. Now you get in the proper report within 30 days or you will be fired out."

Mr. GRIFFIN. If I agree with your premise I could find no fault with your conclusion, but you have built up a premise different from this law. You are assuming that these reports come in under seal, but this law imposes the obligation on the exchange itself——

Mr. KINCHELOE (interposing). To see that they do come in.

Mr. GRIFFIN. There is a further obligation, as I interpret it.

Mr. KINCHELOE. I am laying down that premise in order to avoid your objection about revealing the confidential part of it.

Mr. GRIFFIN. If you and the other gentlemen here will agree to have the reports come in under seal, that meets my objection. That was one of my own suggestions, but if they come in openly——

Mr. KINCHELOE. I do not care how they come in.

Mr. TINCHER. So long as your board is made responsible, because you have absolute control over your members.

Mr. TEN EYCK. Is not that really up to the board of trade itself, to make the rules and regulations as to how they shall come in and how they are filed, so that the Government can obtain them with the least possible effort and in the shortest possible time?

Mr. KINCHELOE. I think it could be worked out satisfactorily with the Secretary of Agriculture.

Mr. TINCHER. I did not want the Secretary of Agriculture to have to go to the 200 firms out there and I did not want him to have to have any fuss with any firm. I wanted him to have his fuss with the exchange, because the exchange has more power over its members than anybody else.

Mr. KINCHELOE. Then to go a little further in reference to your statement about revealing confidential matters, you say that the in-

dividual deals through a firm. Now, if the individuals have to file the information with a firm, would not they be giving the confidential secrets of their business to that firm which has several members?

Mr. GRIFFIN. The relations of a principal with his agent are like those of a client and attorney. The commission office with who he was dealing would have his confidence, but the point is that one of the most valuable pieces of trade information is the matter of customers. We have nothing particularly to conceal in the commission business. We all charge the same commission and the service and everything is practically the same, but you can understand how valuable it would be to me, for instance, if there were exposed a list of 100 or 200 or 300 customers of a commission house as to what they were doing. Would you care, if you were a competitor of mine, to have that information?

Mr. TINCHER. I can see some force in that, I agree; and I am in favor of any regulation which would preserve that secrecy.

Mr. TEN EYCK. Is it not a fact that the stock exchange to-day has rules and regulations that practically cover that; they report every day the amount of sales and purchases of the various stocks, the total, and they also have a way that they can ascertain from the various brokers whether or not any individual, be he a member of the stock exchange or not, has made a multiplicity of sales through various brokers' offices for the particular purpose of manipulating some particular stock? That is further than we are asking you to go now. We are asking you now to report on the members of your organization, whereas the stock exchange goes out into the world, you might say, and finds out as regards any particular person who manipulates any one particular stock through sales in a multiplicity of offices. Is not that true?

Mr. GRIFFIN. That is true on the New York Stock Exchange, of which I am a member, and I am also a member of the Chicago Board of Trade, wherein a specific matter is under investigation, but we have no power under the present rules to compel a member to furnish us with a transcript of all his transactions.

Mr. TEN EYCK. Daily?

Mr. GRIFFIN. Daily or periodically or otherwise.

If I may proceed——

Mr. TINCHER (interposing). Before you leave this proposition, there is nothing in the language of the bill, as it is now, to prevent those reports being sealed, except that they shall be open to the Government.

Mr. KINCHELOE. It would be absolutely a matter of regulation.

Mr. TINCHER. You could require them to file statements?

Mr. GRIFFIN. If that is agreeable to you, it is perfectly agreeable to me. I think we could compel the members to furnish them under seal to meet the requirements of the Government.

Mr. TEN EYCK. That is the idea of having these files in the board of trade, in order to procure from some individual member, in the case of a crisis, the sales on his books.

Mr. TINCHER. I want to be able to send a man out there who can get an idea of what is going on, whether the market is being manipulated.

Mr. MCLAUGHLIN of Nebraska. That matter is not exactly clear, the contracts might be sealed by regulation of the board. To make

it clear at line 10, where you provide that "each such person shall keep a permanent record of such contract for future delivery," I would suggest "shall furnish a copy of such record, contract of sale or otherwise, to be opened by the regularly constituted agent of the Secretary of Agriculture, in his discretion."

Mr. TINCHER. I want to direct this law to the exchanges and let them keep the records. They can regulate that by their own regulations and the Government will not have to deal with so many people. That might amount to a little extra work on the exchanges.

Mr. GRIFFIN. Mr. Wells, do you agree in my judgment that the exchanges are privileged to demand from their members these reports for the purposes of the Government and no one else?

Mr. WELLS. I see no objection to requiring that. I understand that they wish a record of all transactions of individuals on the exchanges, which it would be a physical impossibility for the trade to furnish, but I see no objection to it.

Mr. JONES. They could do that under this provision.

Mr. TINCHER. What would that require, for instance, on the Chicago Board of Trade?

Mr. WELLS. It would take hundreds of clerks working 24 hours a day. I have no doubt but what a memorandum of the transactions on the board could be filed. I see no objection to it.

Mr. TINCHER. A man from the department could go there and dig through them and find out what is wrong. That is information which the Government should have. This committee has never before been able to procure that information.

Mr. WELLS. May I ask the purpose of requiring the same information on the cash or spot grain?

Mr. TINCHER. Yes, sir; so as to make a comparison so that we will know.

Mr. WELLS. As regards volume there is a record of all cash grain transactions. It would simply entail making a duplicate of every cash transaction in the official record.

Mr. TINCHER. There is no official record that is available in one place?

Mr. WELLS. In volume there is, not as to individuals.

Mr. ASWELL. How long would it require the department—that is, an agent of the Agricultural Department—to examine one month's business on the Chicago Board of Trade?

Mr. WELLS. One individual?

Mr. ASWELL. Yes, sir.

Mr. WELLS. It would take him a year, I suppose.

Mr. GRIFFIN. That would require a number of employees.

Mr. KINCHELOE. If I had been skinned out of $20,000 they could send out a man to investigate.

Mr. TINCHER. If there is a 20 per cent drop in a given commodity in one day, I should like to have a man from the Government go out and see what had happened.

Mr. WELLS. I think that the moral effect would be good.

Mr. TINCHER. It would not take him a year to find out what had happened on the board.

Mr. TEN EYCK. At times we have headlines in the paper that Mr. So-and-So on the Chicago Board of Trade is manipulating grain or oats or corn, and this information would instantly give the Gov-

ernment an opportunity to look into it and see whether there was any truth in the story.

Mr. KINCHELOE. I think that it would be a permanent benefit to the legitimate traders.

Mr. GRIFFIN. We have no objection to the matter in principle. I was only trying to evade the obligation on the exchange which, in my opinion, did not properly belong there. I believe that wrongdoing is a personal relation. The exchange itself would do no wrong by members failing to pay a tax or failing to keep a proper record. It would be an individual act of wrongdoing.

Mr. TINCHER. You can correct the evil just as easily as the Government.

Mr. GRIFFIN. If a man fails to pay his internal-revenue tax or violates the law of the State, we do not know it. I would hate to have the exchange held responsible for the wrong acts or omissions on the part of individual members.

Mr. TINCHER. By making a report I think it would be very easy and simple for you to enforce that.

Mr. GRIFFIN. In view of this enlightened discussion, I think that it is possible.

May I proceed to section 5, subdivision a? This is the section which describes what constitutes a designated market. I am going to make bold here to suggest that the clause "as fairly to reflect the general value of grain, unaffected by local conditions," etc., be stricken out and in lieu the following be inserted:

Markets in which cash grain is sold in sufficient volume to justify such places being designated as terminal markets.

I suggest that, Mr. Chairman and gentlemen, because all markets are affected by local conditions. General conditions are the sum total of local conditions. As Mr. Wells explained yesterday, for instance, in his market, Minneapolis, this year there might be a crop failure tributary to Minneapolis, whereas tributary to Chicago or Kansas City or St. Louis there would be an ample supply. To insure a sufficient supply to take care of the mills tributary to Minneapolis their price locally must at once get out of alignment with the usual parity reflected by the freight difference. They must come down to Chicago and Kansas City and St. Louis and pay the additional freight rate and have that reflected in the price.

Mr. TINCHER. I think that I used the wrong language in that section. What would you say to cutting out the words "unaffected by local conditions"?

Mr. GRIFFIN. I think that would largely meet it.

Mr. TINCHER. You know what I was getting at in that paragraph?

Mr. GRIFFIN. You were trying to make a distinction between a bona fide market and one otherwise.

Mr. TINCHER. Yes, sir.

Mr. GRIFFIN. I think either the elimination of "unaffected by local conditions" or the suggestion which I have made would accomplish the same purpose. A bona fide terminal market is one that handles grain in volume and is not organized to violate any law or rule. I have no objection; I am just making a suggestion. Either, in my judgment, would fit the situation.

We have already discussed (b) out of turn.

As to subdivision (c), of paragraph 5: I am sure that the Chicago Board of Trade or no grain exchange in the United States has ever at any time on record disseminated any false or untruthful news. News that is circulated when it is not true is circulated by members and usually innocently. We have a host of news agencies in our trade—I am in the stock business and I am in the cotton business—and most of these false rumors originate with the news distributing agencies. Members subscribe to them. They put out a report that war is declared or war is off or something of that kind, and it comes to the members, and they in turn distribute it to their clientele. In almost 100 per cent of the cases that is from the news agencies. That is called to the attention of the press and then it gradually percolates into the trade. I am not seriously concerned with this subdivision, because it is practically along the line of our recommendations.

Mr. CLARKE. That is subdivision (c)?

Mr. GRIFFIN. Yes, sir. I will make the same comment on subdivision (d); that is already covered in our report.

Now, we come to subdivision (e), the private-wire section. This is a problem with which we have grappled since April 12 in trying to form an amendment to our rules. It is complicated. We thought that we could meet that situation—I did not get to the suggestion in our report—by limiting private wires to towns of 25,000 people. We did that because there are scattered throughout the country a number of offices in the smaller towns usually not operated by a member of the board, but by a manager or employee. These towns have men who engage in what Mr. Wells so happily termed incompetent speculation. We hoped to meet that situation and to correct it by limiting it to towns which have over 25,000 people. We thought, at least we concluded, that the only way we could meet it would be to control those places. What did we find? We found in any number of towns of less than 25,000 people that we have members, industrial establishments. For instance, the Corn Products Co. has an enormous plant at Pekin, Ill., and another at Granite City. These offices out there are run by members of our board, and the regulations of our board apply to all members.

Mr. KINCHELOE. What hardship would it be on the board or its members to take that away entirely?

Mr. GRIFFIN. The private wires?

Mr. KINCHELOE. Yes, sir.

Mr. GRIFFIN. It would be a good deal like going back to candlelight instead of electricity, a step back to first principles.

Mr. KINCHELOE. That does not answer my question. What benefit do you derive that it would be a hardship to take away from you?

Mr. GRIFFIN. The benefit of speed in the transfer of intelligence all over the world. We, of course, could do business without the telephone entirely, but not——

Mr. KINCHELOE (interposing). The great benefit is the expedition of business?

Mr. GRIFFIN. Yes, sir; absolutely.

Mr. KINCHELOE. If it could be done as expeditiously on a public wire would it be revealing any of your private business?

Mr. GRIFFIN. No; the question of privacy does not enter there.

Mr. KINCHELOE. It is expedition alone?

Mr. GRIFFIN. Yes, sir. If you were to send a telegram from Chicago to the interior of Iowa you might get the reply to-morrow morning and might not get it until afternoon. With the private wire you can wire to a broker who is in Washington or Chicago or New York or San Francisco, wherever there are exchanges, and can execute an order, either in stocks or grain or cotton, and have the report back in two minutes. If you attempt to do the same thing by public wire frequently it could not be accomplished the same day.

Mr. KINCHELOE. That is undoubtedly true.

Mr. TINCHER. You can do it better because you have the private wires running everywhere?

Mr. GRIFFIN. Yes, sir.

Mr. KINCHELOE. You are speaking of limiting it to towns of more than 25,000 inhabitants?

Mr. GRIFFIN. Yes, sir; that is the viewpoint of the board and its recommendation.

Mr. JONES. What is the objection to going to the smaller towns?

Mr. GRIFFIN. First, the item of expense. Offices in the larger centers like Washington or Cleveland are usually conducted by men of standing and almost invariably by men who are themselves members of the exchange and accountable to the exchange. In the smaller places you have a different type of man. In the first place, the volume of business is not sufficient to justify a member of the board; he can devote his time to other activities. In the small communities it results in hiring local managers, and these local managers, in their zeal to get business to make a showing to insure their continuous employment, gather into those offices the incompetent, financially, mentally, and otherwise. I mean by "mentally" men who are not trained students of the business and who ought not to trade in grain or any other commodity. It has resulted in a great deal of criticism of the exchange. The offices which I have in mind are largely in the Central West tributary to some terminal market. I was speaking of such offices when we attempted to limit it to towns of 25,000. The author of this bill has attempted to limit these private wires to contract markets.

Mr. JONES. Suppose there should be a contract market in a town of 25,000 inhabitants, would you be permitted to have a private wire there?

Mr. GRIFFIN. I do not think that condition exists; I do not know of any town of 25,000 inhabitants where there is a contract market. I am sure that neither the board nor Congress is attempting to prevent this industrial enterprise expediting its business by the use of private wires.

We are members of the New York Stock Exchange, we are members of the Cotton Exchange, and we are members of other exchanges. As a matter of fact, I think that 80 per cent of our private wires are used for stock and cotton business and only a small part for the grain business, and we are members of the contract markets. It is doubtful whether the operation of this law as it is framed or even our suggested law, which we have agreed we will have to modify, will meet these practical objections. I am not prepared to offer any further suggestion at this time, but hope to have further suggestions in the course of a week or ten days after reflecting further and taking additional advice.

The objection to section 6 is not very serious. It largely concerns, in my mind, the clearing up of one thing, lines 23 and 24, "with a showing that it complies with the above conditions," and that it will continue to comply.

Mr. KINCHELOE. Let me interrupt you by asking Mr. Tincher a question.

Mr. GRIFFIN. Certainly.

Mr. KINCHELOE. What have you in mind in the insertion of the words "and with a sufficient undertaking that it will continue to comply with the above requirement"? Do you have indemnity in mind?

Mr. TINCHER. Yes, sir. I doubt whether it need be.

Mr. TEN EYCK. Would it be a hardship if no puts and calls were executed over the private wires?

Mr. CLARKE. They are done away with entirely in this bill.

Mr. GRIFFIN. Yes, sir. We want to go further—in other words, restrict the use of the private wire rather than to absolutely do away with it, to make it impossible to use it for unlawful purposes.

Mr. KINCHELOE. There is another thing involved and I was really under the impression—that is the reason I asked you some time ago—that it was not a question of expediency but that it was a question of transmitting news that was not true.

Mr. GRIFFIN. That is absolutely untrue, Mr. Congressman. The private wire is a great modern facility which expedites business.

Mr. KINCHELOE. There is no doubt about that.

Mr. GRIFFIN. These wires reach from the Pacific to the Atlantic. I do not care where you are if you wish to buy 100 shares of stock, if you wish to buy bonds or to sell Liberty bonds, it can be done over these wires. Furthermore, these wires constantly transfer intelligence and quotations so that a man far remote from the market can know the value of his security or commodity.

May I ask Mr. Tincher a question, Mr. Chairman?

The CHAIRMAN. Certainly.

Mr. GRIFFIN. What was your objective in trying to limit private wires to contract markets—was it somewhat similar to our own?

Mr. TINCHER. Yes. I came pretty near leaving it out on the theory that the Secretary of Agriculture under this bill would have the power to control the use of the private wires. I did not feel justified in just leaving it out. I always thought that there should be some legislation concerning private wires. Another idea I had in this connection was that there would not be any question but what all the markets would be applicants to be designated as contract markets.

Mr. GRIFFIN. It might tend to cause the creation of markets. Might I suggest—I can not give you any assurance that the exchanges themselves would meet this particular suggestion and it is not of any particular value except in small towns—I think it would help your bill to let the exchanges work that out, and if they do not you can always work it in as an amendment.

Mr. TINCHER. I wonder how any of these markets will be about applying to the Secretary of Agriculture to be designated as contract markets—there would be no question about their being active with their applications with that provision in the bill.

Mr. GRIFFIN. You place a limitation there which can not be escaped, and that restriction, in my opinion, removes any fear that people will

attempt to organize markets simply to come within the purview of this law.

The CHAIRMAN. It is now 15 minutes after 12; what is the pleasure of the committee?

Mr. MCLAUGHLIN of Nebraska. I move that the committee take a recess.

(Thereupon, the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee met at 2 o'clock p. m. pursuant to recess, Hon. Gilbert N. Haugen (chairman) presiding.

The CHAIRMAN. The committee will be in order. Mr. Griffin, you may resume your statement.

STATEMENT OF MR. JOSEPH P. GRIFFIN, PRESIDENT BOARD OF TRADE OF THE CITY OF CHICAGO, CHICAGO, ILL.—Resumed.

Mr. GRIFFIN. At the adjournment this morning I was discussing subdivision (e) of section 5. I had explained many practical difficulties in either legislative or adopting rules to control this private-wire situation. The suggestion I offered was that the Congress for the present permit the exchanges to try to work out this problem. There is nothing beyond what I stated this morning affecting the general question of the desirability of future trading involved private wires. They not only transact future business, but every kind of business. We have 15 or 20 concerns with private wires connecting their various offices and plants and used for purposes entirely remote from that of future trading. Nevertheless they are members of our exchange, and any law you would adopt would hit them the same as any other member in any other activity. I see nothing that will hurt the law as designed if my suggestion is carried out; and even then we are going to have great difficulty as practical men in solving the problem—not in an attempt to frame a law, but in an attempt to frame a resolution. It is not easy of solution, as I explained this morning.

As to sections 6, 7, 8, and 9, or at least the fore part of section 9, they are largely measures designed to secure the enforcement of the law. I would direct your attention to the concluding portion of section 9. In substance this section provides a very severe penalty. In other words, it provides for forfeiture of the contract.

I am sure the framer of the law never contemplated a situation such as might develop if that particular section were not amended. For instance, it provides that if there be a violation the contract is null and void and unenforceable in any court of the United States or of any State or Territory. A person lacking in morality and having a contract which was honestly and properly entered into but it being to his interest to have it canceled might do something to bring it in contravention of this law and do it deliberately and with the design to procure and bring about a nullification of his contract, thereby placing a penalty upon an innocent party.

Mr. KINCHELOE. Do you mean by not paying the tax?

Mr. GRIFFIN. By doing any of a number of things specified in the law.

Mr. KINCHELOE. He would then be subject to a fine of not less than $10,000 and one year's imprisonment.

Mr. GRIFFIN. That is very true, but the man will often risk a penitentiary sentence in order to get out of an unfavorable contract. At any rate you certainly do not want an innocent party to suffer. I am sure that you do not mean that. I do not know how you lawyers would work it out. You might ask for a forfeiture for the guilty party and provide for protection for an innocent party.

Mr. TINCHER. What do you think about the punishment being sufficient without referring to forfeiture of the contract?

Mr. GRIFFIN. I should think it would be ample. Speaking from a purely personal point of view, I would not want to place myself in the position of being fined $10,000 and imprisoned for one year.

Mr. JONES. That is the impelling penalty, isn't it?

Mr. GRIFFIN. I would think so. But in addition, there is a penalty that may fall upon an innocent person.

Mr. JONES. And might prevent a person from trading in a legitimate way by virtue of the law.

Mr. GRIFFIN. Yes, sir. It is quite possible for a contract to involve a loss of $50,000 or $100,000. And in that case do not you see how simple it might be for a man, even though he might jeopardize his liberty, who would seek to bring about a situation whereby there would be a nullification of the contract?

Mr. TINCHER. Section 9 provides as the first portion of the punishment to make the offending party pay not only the tax but 50 per cent in addition. The second provision is fine and imprisonment. And the third provision is cancellation of the contract. I do not know of anything else I could have put in that section. There may be some things that could have been put in but I do not think of them now; and there may be some things in that section that could come out.

Mr. KINCHELOE. Your idea is that a man might take his chances in a court rather than lose $200,000 or $300,000 under a contract?

Mr. GRIFFIN. Certainly. You all know that many men may jeopardize their liberty in a case of that kind, and not only under a contract that would involve a possible loss of $200,000 or $300,000 but even a possible loss of $5,000 or $10,000.

Mr. TINCHER. I think it is better for a bill to have too much of a penalty or too many penalties in it to start with than not enough.

Mr. JONES. That may be true. I think that bill has plenty of penalties in it, and although I think it is very wise to fully protect the situation, perhaps it might be fully protected by not having them all in there.

Mr. CLARKE. What would you strike out, Mr. Griffin?

Mr. GRIFFIN. The concluding portion of section 9, "or imprisoned for not more than one year, or both."

Mr. JONES. That would leave the contract on its intrinsic merits? If it is all right, then all right; if not, it is wrong.

Mr. ASWELL. That is enough.

Mr. GRIFFIN. Yes, sir; I think so. I think the Congress does not want to work a hardship on any citizen who does not violate the law.

Reverting again to that portion of section 6, on page 4 of the bill, referring to revocation of a "contract market" by the Secretary of Agriculture: That matter was discussed very capably and efficiently by Mr. Wells yesterday, and suggestions were invited by the committee as to how to handle that matter. In that connection let me say that Congressman Volstead introduced a bill which some other member of this body spoke about, and I have a copy of it here. If I may be privileged, I should like to suggest a similar procedure in your bill, Mr. Tincher.

Mr. TINCHER. Read it.

Mr. GRIFFIN. All right.

Mr. KINCHELOE. What bill is it?

Mr. GRIFFIN. It is bill H. R. 2373.

Mr. KINCHELOE. Does it come to this committee?

Mr. GRIFFIN. No; I see that it was referred to the Committee on the Judiciary.

Mr. TINCHER. Read the section to which you refer.

Mr. GRIFFIN. I refer to section 2, which provides as follows:

SEC. 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than thirty days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist therefrom. An association so complained of may at the time and place so fixed show cause why such order should not be entered.

The evidence given on such a hearing shall be reduced to writing and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the association an order reciting the facts found by him, directing such association to cease and desist therefrom. On the request of such association or if such association fails or neglects for thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

That is the only concrete, definite, similar regulation that has been disclosed to me, Mr. Chairman and gentlemen of the committee, and it seems to me to better fit the situation than section 6 as drafted by the framer of this measure. Compliance with the law is sufficiently protected, but a reasonable opportunity is given a person to present his case, and further to have it reviewed if necessary. You know that even our courts err, and that matters before the courts are fre-

quently carried to the Supreme Court; and this proposed provision by Mr. Volstead simply carries the matter one step further than is contemplated by the framer of this measure, and permits an appeal from the Secretary of Agriculture to the courts. It provides further that the agency of the court may be used to help carry out an order.

Mr. KINCHELOE. Under this section an aggrieved party would still have recourse to the courts notwithstanding the action of the Secretary of Agriculture. But in view of all that is provided there they would still be doing business.

Mr. TINCHER. There is altogether a different situation to be met there from that provided in my bill. That is a farmers' cooperative bill. They would have no official connection with the Secretary of Agriculture prior to his determination to stop some of their practices.

Mr. ASWELL. Why could not this matter be referred to the Federal Trade Commission?

Mr. TINCHER. I do not want it to die. The Federal Trade Commission only investigates and makes reports, and they are printed at some time. I want it distinctly understood that I think the Federal Trade Commission has some function in Government, and do not want you to misunderstand my statement here; but I do not want the Secretary of Agriculture to wait 30 days even if there is some violation of this law. From my standpoint I would look more friendly upon some proposition that if the Secretary of Agriculture did revoke a license the aggrieved party would be given his day in court. But, of course, for the Secretary of Agriculture to go into court in order to have the exchanges comply with this law means a delay that I do not think should be permitted in such a case as is provided for here. And then this matter is peculiar in this, that whenever the Secretary of Agriculture takes away from an exchange the designation of "contract market" it is bound to be a pretty desperate case. He would not do that otherwise, for we all understand what that would likely mean to the country. They would have to be tolerably flagrant violators for him to be justified in taking an action of that kind. On the other hand, if the exchanges were confronted by a weak-kneed law, and if the Secretary of Agriculture had to go through a lot of court proceedings to do anything to them, it would not be easy to make them live up to the terms of the law.

Mr. GRIFFIN. Do you think if the Secretary of Agriculture asked the Chicago Board of Trade to cease and desist from a certain practice they would comply forthwith?

Mr. TINCHER. I do; and further I do not think there will ever be a prosecution under this law.

Mr. GRIFFIN. The difficulty is that the Secretary of Agriculture under this proposed bill does not ask the exchanges to cease and desist, but he revokes their designation as a "contract market." Suppose unconsciously an exchange fails to carry out some provision of the law because of a misconception of the law and without any intention to disregard same, yet it is a violation of the law. You do not give the Secretary of Agriculture any leeway, practically speaking.

Mr. TINCHER. How would this fit the case: Such revocation shall be only after notice to the officers of the board of trade and opportunity offered them to cease and desist in the practice complained of,

or to correct the violation complained of. And then provide that after the Secretary of Agriculture shall have made an order, if you want to, and I see no objection to it, the party complained of shall have the right of appeal from the revocation.

Mr. GRIFFIN. That would harmonize exactly with my views. I am after the substance and not the form, for after the substance is agreed to the form can be worked out.

Mr. TINCHER. What I want is for the Secretary of Agriculture to have the right to stop any improper practices then and there. If he is wrong about the practice complained of and the exchange is right, I want to leave that authority with some Government official and not with the exchange.

Mr. GRIFFIN. I appreciate that.

Mr. TINCHER. Let the Government act and then let the exchange live under that revocation until the party violating the law substantiates his appeal and warrants a revocation of the order if it becomes necessary to revoke it. But I want to add that I do not anticipate that any exchange will take any chance of having their designation revoked. And I do not beleive there will be any trouble about this matter, but I do not want to weaken the law. I can see a great difference between the bill proposed by Mr. Volstead and the bill I have introduced to fit this case.

Mr. GRIFFIN. I do, too, Mr. Congressman, but I think the situation is all in favor of the board of trade for the reason that the board of trade has only 1,600 members in Chicago, and they are an important organization, the most important commercial organization in the world, and they would not dare to put themselves in a position of violating an order made by the Secretary of Agriculture when he was acting within the authority of law. Any order that he might make would be complied with forthwith, and I think you realize that, Mr. Tincher?

Mr. TINCHER. Yes; I think so, too. And I think there is some merit in the suggestion that the Secretary of Agriculture probably ought to be required before revoking a designation of a "contract market" to meet the requirements of the court.

Mr. GRIFFIN. Your suggestions meet my unqualified approval. I think that would fit into the objections I have referred to.

Now, Mr. Chairman and gentlemen of the committee, before I pass from the Tincher bill I just have a few notes to refer to and will not consume much more of your time. But, first, is it the desire of any member of the committee to ask me any questions further on my views with reference to this bill?

The CHAIRMAN. I understood you to say at the beginning of your statement that some of these bills were subject to certain objections and others not. Will you kindly proceed to state any objections you may have to the other bills under consideration by this committee?

Mr. GRIFFIN. The objections I have to the other bills, as I have read them and interpret them, are that if they were enacted into law they would completely destroy the futures market. Our entire present system of marketing is dependent upon a continuance of the futures market.

The CHAIRMAN. In what respect would they destroy the present system?

Mr. GRIFFIN. Because the provisions of the several bills which I have in mind would forthwith close the futures market. Under them the futures market could not be maintained. I have not the other bills before me, but if you will tell me some particular bill maybe I can remember its provisions.

The CHAIRMAN. You are opposed to any restrictions on speculation?

Mr. GRIFFIN. What was that?

The CHAIRMAN. As I understand your position, you are absolutely against any restrictions being placed on speculation, or I will call it gambling?

Mr. GRIFFIN. No; I think not. I have stated this morning that——

The CHAIRMAN (interposing). You stated a moment ago that you were for a free and open market, or for free and open trading.

Mr. GRIFFIN. For a free and open market; yes, sir.

The CHAIRMAN. You say you are for restrictions; to what extent?

Mr. GRIFFIN. I have stated at very great length what my position is in this matter. I, personally, and our exchange favor cutting off the country wire offices to prevent, so far as we can, trading by incompetent persons, persons occupying positions of trust, etc., who should not be allowed to trade. But I do object to preventing persons to enter upon a public market because they deal in a certain amount of grain.

The CHAIRMAN. Are they the ones that corner the market if there is any cornering?

Mr. GRIFFIN. Perhaps so, because the small man could not effectuate a corner.

The CHAIRMAN. You are against putting any restriction on the big fellow who may be able to corner the market?

Mr. GRIFFIN. Because a man does a large volume of trading or is wealthy does not presuppose he has any natural bent toward cornering the market, because, as a matter of fact, the percentage of cases where that is true are not fractional but infinitesimal.

The CHAIRMAN. There is no discrimination between the big and the small trader, but it is as to volume of business that makes it possible to corner the market.

Mr. GRIFFIN. Not at all.

The CHAIRMAN. The man who can buy hundreds of millions of bushels of grain has the power to corner the market if anybody has.

Mr. GRIFFIN. I understood that your question was predicated upon volume of the market. The larger the volume in the market the less chance to corner it. The volume in Chicago is so great that an individual, generally speaking, unless he has huge capital, could not sway the price at all, in the working out of the inexorable law of supply and demand.

The CHAIRMAN. Any one who can finance and control a billion bushels of wheat has the power to corner the market.

Mr. GRIFFIN. That is true.

The CHAIRMAN. So it is all in the volume. Would you put any restrictions on the dealings by any individuals?

Mr. GRIFFIN. On the quantity of grain traded in by an individual?

The CHAIRMAN. Yes. I want to get your idea.

Mr. GRIFFIN. A market place is a good deal like subscriptions to the Y. M. C. A. or to the Red Cross. You need your large subscribers

and your small subscribers. Ten per cent of the persons in number giving to a cause of that kind will often give approximately 50 per cent of the total money given. Ninety per cent of the remainder will give the other 50 per cent. It is the same way in a market place in the total number of traders, large and small. The condition as it exists to-day——

The CHAIRMAN (interposing). I understand that, but would you give one man power to corner the market, or would you put any limitation on the number of bushels of grain he may deal in?

Mr. GRIFFIN. I would object to any quantity limitation.

The CHAIRMAN. Would you do as was done during the war, limit trading to, say, 200,000 bushels per man?

Mr. GRIFFIN. Why, I should think it a very dangerous experiment.

The CHAIRMAN. What limit would you put on?

Mr. GRIFFIN. I would not put on any limit.

The CHAIRMAN. You would just let the sky be the limit.

Mr. ASWELL. Wouldn't this bill if in operation meet that question?

The CHAIRMAN. There is no limitation provided here.

Mr. ASWELL. But publicity and the action of the boards of trade would prevent manipulation.

Mr. GRIFFIN. It would prevent a corner.

The CHAIRMAN. How would it?

Mr. GRIFFIN. An exchange in its own interest in order to not come within the provisions forbidden by this law must see that no one does corner the market.

The CHAIRMAN. The market is open to everybody now to speculate. There is no limit placed on volume of trading?

Mr. GRIFFIN. You have Federal laws already on the statute books, and we have a law in Illinois that makes it a felony for anyone to attempt to control the market in foodstuffs. Let me explain why I think it is inexpedient to put a limitation on the volume of trading. At the present time there is a visible supply of 100,000,000 bushels of grain. That only takes in the principal market places, the bigger ones, such as Chicago, Kansas City, Duluth, Buffalo, New York, Baltimore. Then there are the interior points, the country elevators and the terminal market places, like Evansville, Terre Haute, and so on, which cover about 150,000,000 bushels of grain. There is no general demand except for wheat. For days, weeks, and months the receipts of corn and oats have been vastly in excess of the demand. Daily during that period the sales by farmers have been far in excess of the demand.

I would like to have any practical man in the trade here correct me if he disagrees with me, but I think to-day there are 200,000,000 bushels of grain for which there is no demand. That load is carried by speculators. If you limit the amount of purchases possible by the large men, the men who because of the price being low are willing to buy in larger quantities, you will cut the market down. Take the man who would just as soon invest in grain to-day because it is low as to invest in Liberty bonds or other securities. If you say to such a man you can not buy but 100,000 bushels or 200,000 bushels you drive him out of the market entirely. They do not buy 50 shares of stock or 50 bonds; they buy 1,000 shares or 2,000 shares or $20,000 or $50,000 in bonds. In that way you would drive out one of this class of investors who perform an important economic function.

They take the grain when the farmer wants to sell it and carry it until the day of need. If you attempt to limit them you will really eliminate them, and the market must depend upon the small man to carry the load.

The CHAIRMAN. The limit that was put on during the war did not work any hardship, did it?

Mr. GRIFFIN. During the war there was no oversupply. In fact, there was not sufficient production to meet the demands of the world, nor were there sufficient transportation facilities.

The CHAIRMAN. But a Government agency at that time had the power to limit the amount?

Mr. GRIFFIN. I grant you that they put on a limit, but the market conditions of the world were entirely different from what they now are. At that time it was a question of underproduction and now it is a question of overproduction and lack of demand.

The CHAIRMAN. I do not see that that has anything to do with the question we are discussing. Should anyone be permitted to operate and buy over a million bushels or 100,000,000 bushels, or what would be a proper limit?

Mr. GRIFFIN. I have expressed myself on that.

The CHAIRMAN. What would you say about leaving it to the Secretary of Agriculture to fix the limit if found necessary or if any attempt were made to corner the market?

Mr. GRIFFIN. I care not whether any limitation is established by law or left to the discretion of the Secretary of Agriculture or fixed by the exchanges or any other party, the working out of such a plan would in my opinion be disastrous.

The CHAIRMAN. You go back to your first proposition that you are absolutely against any limitation on speculation?

Mr. GRIFFIN. As to quantity limitation; yes, sir.

The CHAIRMAN. What do you say about the number of grades deliverable on a contract? Do you think the Congress should undertake to regulate or prescribe what contracts should be made?

Mr. GRIFFIN. I can say to you frankly that I have no prejudice on that matter. But the grades of grain deliverable on contract are now fixed and determined by the Government. That is, the standards and the actual grading is done under the Government by inspectors licensed by the Government. I think what you have particularly in mind is this question, That if a man makes a contract for future delivery should not that be for a single specific grade, say No. 1?

The CHAIRMAN. Should it be in accordance with standards fixed by the Federal Government?

Mr. GRIFFIN. That is true now.

The CHAIRMAN. Would you write it into law?

Mr. GRIFFIN. I have no objection to writing it into the law. That is practically what is being done now.

The CHAIRMAN. And it is a great improvement over the conditions we did have.

Mr. GRIFFIN. Yes, sir; it is a wonderful improvement, because, as one of the witnesses testified, before the Government took hold of the matter of standards of grain no two markets were alike.

The CHAIRMAN. I think that is true where it is interstate commerce. But if you set up machinery within a State and all transactions are intrastate that rule would not apply.

Mr. CLARKE. Isn't there objection to it from some of the wheat growers on this very subject? Did not I see in a paper this morning that the Minnesota farmers were objecting to the standards?

Mr. GRIFFIN. The northwestern farmers are objecting to the matter, I understand.

The CHAIRMAN. But if Minnesota sets up a different standard we have no assurance that the present rule will be followed.

Mr. GRIFFIN. The fact that the Federal Government has control over interstate commerce compels every market to grade grain according to the Government standards.

The CHAIRMAN. And for that reason it is within the power of the Congress to say what the standards shall be.

Mr. GRIFFIN. Yes; and I am in accord with it.

Mr. TEN EYCK. Are the standards provided and standardized by the Bureau of Standards here in Washington?

Mr. GRIFFIN. Yes, sir.

Mr. TEN EYCK. Would the Congress then really have the right to standarize the grain when it has already been done by a bureau which the Congress has heretofore empowered to do that?

Mr. GRIFFIN. May I say to you, Mr. Congressman, for your information as a practical question that excepting for grain that passes from farm to farm or from farm to a near-by feeder or local mill for consumption, that practically all grain passing into commerce is graded and inspected under standards fixed by the United States Government.

Mr. TINCHER. The Congress probably would have had the power to pass a law fixing the different grades of grain. But instead of passing such a law they passed a law authorizing or designating the Department of Agriculture to do that.

Mr. TEN EYCK. Isn't that done through the Bureau of Standards?

The CHAIRMAN. No; it is done by the Department of Agriculture and licensed inspectors are provided. The Department of Agriculture fixes the standards.

Mr. TEN EYCK. I do not know that the Bureau of Standards have standardized butter and a lot of other things, because I have seen little containers with a standardization mark on them.

The CHAIRMAN. The standardization of grain is under the Department of Agriculture.

Mr. TEN EYCK. I wanted to find out about that.

Mr. TINCHER. There was a time in my brief career when I wanted the Congress to pass a law fixing the standard of grain because of the misinterpretation of the law by a gentleman named Brand, who I thought was not administering the law correctly. But I want to say to you that as far as our section of the country is concerned, since his resignation and since the department has changed its policy we have had no complaint about the grading of grain.

But here is something I have never been able to understand and want the chairman to tell me about: If there is anything wrong with our grain-grading system, why should not that be remedied by an amendment to that law; and why should it be mixed up in a bill seeking to prevent dealing in grain futures?

The CHAIRMAN. It is merely an attempt to make definite what the contract should be.

Mr. TINCHER. As far as any bill I have introduced on the subject of grain futures I have not gone into that proposition at all.

The CHAIRMAN. But you leave out a very important part and a thing that the millers are contending for.

Mr. TINCHER. It may be that there ought to be legislation along that line, but why bring it into this matter?

The CHAIRMAN. You may have more confidence in these exchanges than some other people have. I am not questioning the integrity of the members of the exchanges, but as to what is right and wrong between contracting parties if you can make a fair contract and give each party a fair chance and not leave entirely to the exchange what the terms of the contract should be, you will be helping the situation.

Now, Mr. Griffin, what should the grading be?

Mr. GRIFFIN. Up to about 15 years ago on the Chicago Board of Trade we had one deliverable grade of wheat, No. 1 northern spring wheat. A little later we enlarged that and took in No. 2 hard winter wheat. We took that in at the request of the growers of wheat, and it was taken in at a discount but later at a parity. Subsequent to that we made deliverable No. 2 red winter wheat, first at a 5-cent discount and then at a 3-cent discount and then even.

At the same time our contract grade of corn was No. 2 corn. Our contract grade of oats was No. 2 white oats. It so happens that different sections of the country one year as compared with another will raise varying qualities of grain. We later took down the bars and took in lower grades at a discount. Other exchanges followed that practice, and it was done for this reason, that the country grain trade and the farmers' elevators and the little independent elevators buying grain from the farmer would immediately hedge. The grain would be delivered, and more frequently than otherwise the grain would not make the contract grade, would not be No. 2 white oats, or No. 2 corn, and so on.

The organizations of farmers and the grain dealers came to Chicago and to the other exchanges and said: "Gentlemen, you have a grade here that is so rigid that a great deal of the grain raised by our producers will not meet the requirements. We ought to have a contract possessing more elasticity. You ought to take in other grades, No. 3 corn, which is a good commercial grade and which will more nearly meet the bulk of the corn raised to be carried to Chicago. If corn is too soft or has too much moisture in it we feel we should have the privilege of delivering that corn on the contract and hedge it at a discount."

Therefore it was in response, not to the speculative trading, not to the consuming trade, but to the request of the farmers and the country grain dealers that we permitted the entrance of these lower grades. Now, mark you, we do not allow the admission or tender on a contract for future delivery of anything but high commercial grades, and the distinction you have so often made as to the experience in the matter of cotton is a different thing. I want to say that we really only have a maximum of three qualities, 1, 2, and 3, but of different types; and No. 3 is good enough for use for almost any purpose except the making of fancy flour. The difficulty before the cotton futures act was that they had about 20 grades deliverable.

The CHAIRMAN. But they were fractions.

Mr. GRIFFIN. They had approximately 20 kinds deliverable.

The CHAIRMAN. You may make it 2,000 for that matter.

Mr. ASWELL. There were 20, exactly.

Mr. GRIFFIN. Twenty was the number fixed by the rules of inspection. When you get down to the lower grades of cotton, you have cotton having no commercial value, and if it were tendered to a buyer on a contract he was in the position of having no commercial market for it, and he had no place to sell it except back in the contract market and redeliver it. A condition like that has never existed in the grain market. Our requirements are for one, two, and three grades, the very best grain raised, and a man who takes that grain on delivery can within a minute sell it anywhere in the world.

The CHAIRMAN. What are the variations in price?

Mr. GRIFFIN. It varies according to the grain and the type of grain. The difference between grades in corn is entirely different as a commercial proposition from grading in oats; and so it is with barley and other things. Generally the difference is from 3 to 5 cents per bushel.

My impression now is, and Mr. Tincher refreshed my recollection by mentioning Dr. Brand, that Dr. Brand was the man who came to the exchanges in the West and had a conference with all elements in the grain trade, not only the exchanges, but the millers and the farmer elevators and shippers and consumers, and at different meetings these differences were agreed upon. You will remember, Mr. Wells; am I right in that?

Mr. WELLS. I think so.

Mr. GRIFFIN. I am trying to clear up in your minds as to the grain exchanges.

The CHAIRMAN. The suggestion is not to restrict the number of grades to be traded in but to restrict the number of grades deliverable on any one contract. Would it be possible for an exchange ever to establish two or three grades? Would it be possible to have one exchange for spring wheat and one for another kind?

Mr. GRIFFIN. In future trading?

The CHAIRMAN. Yes.

Mr. GRIFFIN. Originally Chicago was a spring wheat market, and while I have not reached my forty-fourth year yet, yet I have been around the board of trade there for 30 years, and in my early days I remember that a majority of the wheat sold there was spring wheat.

The CHAIRMAN. You have no objection to establishing two or three pits, have you?

Mr. GRIFFIN. The exchange has no objection, but the objection would come from the country.

The CHAIRMAN. How about Kansas City and St. Louis? Why isn't there a uniform rule?

Mr. GRIFFIN. The reason for it is that Kansas City is a hard winter wheat market. There is practically nothing but hard winter wheat raised tributary to the Kansas City market. Then it moves eastward and St. Louis is a soft wheat market. Chicago has tributary to it all classes of wheat. We raise hard and soft varieties of winter wheat and every type of spring wheat. Our contract has been made as it is because we are not a local market but Chicago is a world market. The practice of Minneapolis and Duluth meets the requirements of the farmers and grain dealers and millers who deal in spring wheat.

The CHAIRMAN. How does that meet the contention that millers would buy wheat in Minneapolis for delivery in Chicago?

Mr. GRIFFIN. When a miller buys wheat for future delivery he buys it for insurance. When he buys it for consumptive purposes the average of any grade does not suit him. These millers make a uniform flour and need a certain quality. The quality or character or type that probably would be delivered to a miller would not usually be acceptable to any miller. Why not? Because it would be a fair general average run of that patricular grade of wheat, and while the quality may be high and all that it may not be the type that he uses in making his flour. Consequently, when he buys a future to hedge he does that for insurance. When he buys wheat to grind into flour he goes into the commercial markets and buys the absolute type he wants to grind into flour.

The CHAIRMAN. Then because of the many kinds and grades deliverable on a contract it is less desirable to the miller.

Mr. GRIFFIN. It makes it less desirable to the buyer and more desirable to the seller. Those rules were broadened and strengthened and the number of grades enlarged at the behest of the country trade.

The CHAIRMAN. There is something in the contention of the miller that contracts at Chicago, where they deliver 23 grades, is practically of no value to the miller. On the other hand, where grades are restricted or limited they are of value to the miller.

Mr. GRIFFIN. If he buys a contract in Minneapolis he buys spring wheat; if in Kansas City, he buys hard wheat; or if in St. Louis or in Toledo, he buys soft wheat. If he wants soft wheat to grind he should not buy futures in Chicago, because under the contract there, where the terms of the contract are agreed to in advance by both buyer and seller, the tender may be hard wheat or soft wheat, and he may get a type of wheat he does not use in his mill.

The CHAIRMAN. If he buys in Minneapolis he gets exactly the type desired?

Mr. GRIFFIN. Yes, sir.

The CHAIRMAN. And for that reason it is more valuable to him than the other?

Mr. GRIFFIN. But the facts are, if I may repeat, that he buys his wheat where he wants it.

The CHAIRMAN. Why could not Chicago set up two or three rings and let him buy or sell what he wants? Do not restrict the operation, but let it be worked out that way?

Mr. GRIFFIN. I presume that would be possible.

The CHAIRMAN. Wouldn't it be valuable to the consumer or to the one who grinds the wheat?

Mr. GRIFFIN. I think the Chicago Board of Trade could work it out, but I would not want to give you a hurried, offhand answer, because I have not for a good many years given that any thought. Answering your question as to whether or not we could work it out, I will say that I think possibly we could; but answering as to whether it is advisable, I would like to refrain from expressing an opinion until I can give it some thought.

The CHAIRMAN. You are familiar with the hearing held some years ago and of the contentions made by the spinners and millers?

Mr. GRIFFIN. Yes, sir.

The CHAIRMAN. And that was the contention at one time. The spinner was here demanding that the contract be made such as to be of some value to him, and the miller contended for the same thing. If you recall the testimony of one of the witnesses, he stated that he contracted for 100,000 bushels of No. 2 oats but that No. 4 was delivered, and that he could not use it and went into court. The bank financing him came to him and told him to cease and desist or it would ruin the exchange. We were told of some contracts that were of no value, for when they contracted for wheat or cotton they were sure to get something they could not use and would, therefore, have to put it upon the market at a loss. They wanted a contract of value. If we have at heart the interest of all the people, then it is our duty to protect them as well.

Mr. TINCHER. Did not the Congress, based on that testimony, pass a law putting grain grading under the Government, and has there been any trouble since?

The CHAIRMAN. This matter has been taken up with reference to cotton and has worked entirely satisfactorily to the spinner since, as I understand, and this other matter should be made entirely satisfactory to the miller. It does not seem right to me to enact a law and leave one side out. I think the millers are entitled to consideration.

Mr. TINCHER. Of course, it is my density that keeps me from understanding you, Mr. Chairman.

The CHAIRMAN. Oh; no, not at all.

Mr. TINCHER. What I do not understand is this, is the miller now complaining that he is forced to take No. 4 wheat when he buys something else?

The CHAIRMAN. Absolutely he has to take one of 23 grades.

Mr. TINCHER. That is on an open contract, and he does not buy wheat on an open contract unless he wants that kind of wheat.

The CHAIRMAN. Unless he can get the wheat, what is the insurance worth?

Mr. TINCHER. I did not prepare my bill for the miller and did not consider that matter in my bill. But perhaps it is because we have such good quality of wheat in my section of the country that we do not have any trouble.

The CHAIRMAN. Very few millers hedge.

Mr. TINCHER. I did not draw this bill to ignore any class of people, but I did not have in mind to protect anyone from delivery of a given grade of wheat on a contract. I really think it is a subject which is entirely separate from the subject I am dealing with in my bill.

The CHAIRMAN. It is a matter of the fairness of contracts.

Mr. TINCHER. I think I will support a bill to meet a situation of that kind if necessary, but I do not see any connection between that proposition and this one I am dealing with.

The CHAIRMAN. Just one more thought, Mr. Griffin, what have you to say as to the fixed differences or the actual commercial differences?

Mr. TEN EYCK. May I ask the gentleman a question right there?

The CHAIRMAN. Yes.

Mr. TEN EYCK. I want to get my mind clear as regards the reason for the number of grades. It appears that you now have a certain number that may be tendered. Do I understand it is for the reason that you can not standardize nature, and that the grains grown over such a variety of territory naturally produces different qualities?

Mr. GRIFFIN. Yes, sir, and types.

Mr. TEN EYCK. And in the interest of the farmer you have got to have rather a flexible sort of grading at times on account of the conditions that exist?

Mr. GRIFFIN. Not flexible grading, but we must have a contract whereby the farmer can deliver what he raises. Our old practice, Mr. Congressman, was to have a more rigid grade as the contract grade, and if the farmer's grain missed that grade he could not deliver it. He would have to sell it for a lower grade in the commercial market and then buy his hedge contract.

The chairman has made it clear that we have 23 grades deliverable, and he is absolutely correct. But we have only a maximum of three qualities. In winter wheats we have, I think, nine grades that are deliverable, but they are all 1, 2, and 3, three different types of winter wheat.

Chicago is peculiarly situated geographically as to wheat. Tributary to Chicago every variety and quality of wheat is grown, both of spring and winter; whereas in competing markets, usually only one type of wheat is grown. It may be hard winter or soft winter or spring wheat. In the matter of spring wheat there are again subdivisions, and they are all good high-grade wheats, fine milling wheats. But at no exchange will they accept below No. 3 grade, and No. 3 makes fine flour. Do I make a distinction as to quality so that what I say is clear to your mind, Mr. Congressman?

Mr. TEN EYCK. I see.

Mr. GRIFFIN. What I am trying to convey to you is that we do not begin at No. 1 and run down to No. 23 quality; not at all; but we begin at No. 1 and run to No. 3 of this type of wheat, and then take the next type of wheat and run from No. 1 to No. 3. It is all very different from what formerly obtained in the cotton market.

Mr. HAYS. No. 4 wheat of any type is not considered a milling wheat, is it?

Mr. GRIFFIN. No; No. 4 is an inferior wheat. There may be some No. 4 wheats that might be considered milling wheats.

Mr. SINCLAIR. But you only deliver three grades of a type on each contract?

Mr. GRIFFIN. Only three grades of each type. We do not deliver 23 different qualities; we only deliver the three qualities.

The CHAIRMAN. But after all, it requires a certain type of wheat to manufacture a certain grade of flour?

Mr. GRIFFIN. That is true, Mr. Chairman.

The CHAIRMAN. Now then, what the miller objects to is this: He is grinding, for instance, dark hard winter. He buys wheat, which is deliverable under that contract. He can not use it, and of course he would prefer to have some limit placed on the grades that are deliverable. If that could be worked out without

any hardship to the one selling it, in order to accommodate the miller it ought to be done.

Mr. GRIFFIN. Mr. Chairman, it can be worked out. It is very simple of solution. The first way to work it out is to do it practically, in a trade way. All that miller would have to do would be to go to Kansas City and buy wheat there as a hedge against his flour sold. Another way is for the exchanges to amend their rules. You understand, the Chicago Board of Trade is not wedded to this proposition, but if you should change the rules substantially from the way they exist at the present time there will be a howl go up from the country.

The CHAIRMAN. Is it not a fact that Chicago is losing its business on account of the millers buying at Minneapolis and Kansas City in preference to buying in Chicago where they buy wheat for grinding purposes?

Mr. GRIFFIN. Where they buy a future contract or where they buy cash wheat?

The CHAIRMAN. Where it is actually delivered, where it is bought for grinding.

Mr. GRIFFIN. If a miller wants to buy wheat for delivery, he should make the purchase of his future contract in either Minneapolis or Duluth, because those are the only two markets in the country where he can have any assurance of having spring wheat delivered on his contract.

The CHAIRMAN. Why is he not entitled to the same assurance in Chicago that he is in Minneapolis?

Mr. GRIFFIN. As I say, Mr. Chairman, we have not any objection to any alteration of our delivery rule.

The CHAIRMAN. What have you to say about the fixed or commercial differences or discounts?

Mr. GRIFFIN. The differences at which the various grades of grain are deliverable under our contracts were arrived at after a series of meetings of every element of the grain trade, and while they are arbitrary in the sense that they are not the precise differences, they have worked out very satisfactorily. However, to us as an exchange it is immaterial. You must bear in mind that the fixed differences are a part of the contract and are accepted and agreed to by the buyer and seller in advance in making the contract. I think that taking one day with another, one month with another, and one year with another, the difference at which lower grades are deliverable on the various exchanges of the country will practically average out with the commercial differences between the same grades at the same time. They will average up.

The CHAIRMAN. Have there been many complaints about that? Has it worked an injustice at any time?

Mr. GRIFFIN. Mr. Chairman, I am serving my third year as president of the board of trade. After a lapse of three years I resumed the functions of that office on the first of January, and I can say to you that I never had a complaint about either the matter of delivering lower grades on contracts or the differences at which they were delivered, and I have never heard of one.

The CHAIRMAN. Well, they are fixed sometimes above and sometimes below the commercial differences, are they not?

Mr. GRIFFIN. It fluctuates.

The CHAIRMAN. It fluctuates to what extent?

Mr. GRIFFIN. It would be hard to answer that question without digging into the actual daily fluctuations in all the commercial markets of the country. It fluctuates, depending on a great many conditions. For instance, in Minneapolis to-day there may be only a limited quantity of No. 2 wheat and the millers may be eager to-day for No. 2 wheat, and they may be willing to pay for No. 2 wheat more nearly the price of No. 1 to-day than they would to-morrow.

The CHAIRMAN. The difference is approximately 5 cents a bushel, is it not?

Mr. GRIFFIN. It is approximately that; in some cases a little more, in some a little less. On corn and oats it is different.

The CHAIRMAN. Well, we are speaking about wheat. About 5 cents is what it is?

Mr. GRIFFIN. Approximately.

The CHAIRMAN. That represents the commercial differences, does it?

Mr. GRIFFIN. Yes.

Mr. TINCHER. While the Government, through the Grain Corporation, was handling the proposition they put in force a set of rules by which they made a difference of as high as 30 cents out in our section.

Mr. GRIFFIN. In some of the lower grades thatis true.

Mr. TINCHER. I mean in wheat that they were actually using for milling purposes. But that did not last very long; they changed the rules.

Mr. GRIFFIN. I think Mr. Wells is probably one of the best posted men on this business in this country. Do you agree, Mr. Wells, with my statement that the differences at which lower grades are deliverable on contracts in the various markets compare reasonably with the actual commercial difference, taking one year with another?

Mr. WELLS. Speaking for the Minneapolis market, I can say that the discounts at which the lower grades are deliverable are almost invariably greater than the commercial discounts. In other words, the man who delivers a lower grade is penalized to a certain extent, and to that extent it is to the advantage of the miller. I will say further that in the determination of the grades deliverable on contracts and the discounts at which they are deliverable the miller has equal voice with the grain men in arriving at the decision. The miller sits in with the committee and has an equal voice in determining what the differences shall be.

I will say further that I do not believe any inflexible rule should be put into effect, because different grades have different values according to their milling value in different years, owing to climatic conditions. In some years No. 2 northern wheat is as good for milling purposes as No. 1 northern. In other years the No. 3 is almost as good as No. 2, and the discount should be less than in the years when the milling quality of the No. 3 wheat is not comparable with that of the No. 2. So these fixed differences would not be satisfactory, I am quite sure—that is, if the differences were incorporated into law. We adjust it between the millers and the grain people, and the contract has been satisfactory to them.

The CHAIRMAN. How do the fixed differences correspond with the differences in cash?

Mr. WELLS. The fixed difference is practically always greater than the difference on the floor of the exchange where the buyers assemble. In other words, the man who delivers it is penalized to that extent and the miller is benefited.

The CHAIRMAN. About how much?

Mr. WELLS. Oh, I would say it ranges from half a cent to 2 cents.

The CHAIRMAN. Some one has handed in this question. I am requested to ask Mr. Griffin if he ever heard of any farmer delivering any actual grain on a future contract.

Mr. GRIFFIN. In the old days it was very common, but owing to the evolution of business there are very few farmers, particularly since the cooperative elevators have been operated, who actually merchandise their own grain in the terminal market. They dispossess themselves at the local station.

The CHAIRMAN. Do they ever deliver any grain on that particular contract?

Mr. GRIFFIN. It was a very common practice prior to the advent of the farmers' cooperative elevator; yes, sir. To-day it is uncommon for the farmer to make a hedge against the grain raised on his farm and then actually make physical delivery of that future contract.

The CHAIRMAN. Is that ever done now?

Mr. GRIFFIN. I say, it is being done very rarely, whereas formerly it was a very common practice. The reason for that is that to-day the farmer, instead of merchandising his own grain from the farm to the terminal market, sells his grain to his local elevator, usually to a farmers' cooperative elevator. Consequently, if he hedges his grain when he sells it to the local elevator he buys back his hedge.

The CHAIRMAN. In my State, which is a wheat-growing State, there are farmers who ship their own grain, and a good many of them hedge it. The question is whether they ever deliver any wheat.

Mr. GRIFFIN. I can testify that I have known hundreds of farmers who have done that in the old days, but it is no longer a common practice, although I have heard that it is more or less prevalent in the Northwestern States.

The CHAIRMAN. Well, the practice is to buy the contract and sell the contract, is it not?

Mr. GRIFFIN. The practice in the case of the farmer, if he wanted to hedge on grain raised on his farm, would be to sell a contract for future delivery, and when he actually sold the grain and made physical delivery of it, then he would buy back that contract that he made on the market.

Mr. JONES. Mr. Griffin, I want to ask this question for my own information: What do you mean by a "type" of wheat?

Mr. GRIFFIN. I do not know that I can use a more definite term. Wheat does not grow uniformly, and so there are types of wheat. For instance, there are perhaps a half dozen varieties of spring wheat raised in Minnesota and North Dakota and South Dakota. For instance, there is a Marquis wheat, which is a distinctive class of wheat. Then, there is a fife wheat, there is bluestem wheat, and there is durum wheat.

Mr. JONES. You spoke of there being 23 grades deliverable on the Chicago market?

Mr. GRIFFIN. Yes, sir.

Mr. JONES. And yet you limit the deliveries on the contract to three grades?

Mr. GRIFFIN. No; I did not say that. You misunderstood me.

Mr. JONES. I understood you to say that one time and then make the opposite statement. That is what I wanted to get clear.

Mr. GRIFFIN. There are 23 grades. There are not 23 grades beginning at No. 1 and running down to No. 23, but the 23 grades embrace qualities from No. 1 to No. 3. The large number of grades is because of the number of varieties of wheat that are raised tributary to Chicago. We are the only market that is tributary to both spring and winter wheat production.

Mr. JONES. Then a man can only deliver one of the three qualities on a contract?

Mr. GRIFFIN. Of a given type; yes. For instance, if he was going to deliver hard wheat he could deliver No. 1, No. 2, or No. 3.

Mr. JONES. If he had a contract for hard wheat could he deliver soft wheat?

Mr. GRIFFIN. His contract, if it is a future contract, permits him to deliver any one of those three grades, and they are all milling grades.

Mr. KINCHELOE. There are several different types of wheat in one grade?

Mr. GRIFFIN. There are several grades of the same type.

Mr. SINCLAIR. If a man bought 10,000 bushels, say, of No. 1 northern wheat, what would he get?

Mr. GRIFFIN. If he bought 10,000 bushels of No. 1 northern wheat he would get 10,000 bushels of No. 1 northern wheat. That would be a specific contract.

Mr. HAYS. You use the word "type." Would not the word "variety" be better?

Mr. GRIFFIN. I use the words interchangeably.

Mr. HAYS. In grading apples we have the Baldwin and the MacIntosh—No. 1 Baldwin, No. 2 Baldwin, and so on.

Mr. GRIFFIN. That is the idea exactly.

Mr. HAYS. And the same way with the MacIntosh.

Mr. JONES. Then he must deliver one of the three different grades of that variety?

Mr. GRIFFIN. Exactly.

Mr. ASWELL. Would not the solution be for a man to buy a future contract for No. 1 northern wheat, for instance?

Mr. GRIFFIN. That is it; it works out that way.

Mr. JONES. If it can be specified in that way I do not see why that should not be done.

Mr. GRIFFIN. That is absolutely the way the business is done.

Mr. SINCLAIR. Is not the contract grade in Minneapolis and Duluth No. 2 northern?

Mr. GRIFFIN. The contract grade is No. 2, but the No. 1 and the No. 3 are deliverable. They also have durum wheat deliverable.

Mr. SINCLAIR. It is not expressed in the contract?

Mr. GRIFFIN. Oh, yes; it is in the contract.

Mr. SINCLAIR. If you are buying durum you are not buying hard wheat at all.

Mr. GRIFFIN. If you buy a future contract in Minneapolis you would have any one of nine grades.

Mr. TINCHER. But you would know that when you bought it. If you wanted to buy wheat to mill, of course you ought to go out to Kansas and buy wheat that would make good flour.

Mr. GRIFFIN. If you wanted to make really fine flour you would buy Turkey hard wheat, which is grown in Kansas and which makes the finest flour in the world.

Mr. GERNERD. As I understand, the man who is buying that wheat might receive any one of the nine grades?

Mr. CLAGUE. Exactly.

Mr. GERNERD. If it does not particularly specify No. 1 northern wheat, for instance, the seller in performing his contract can ship any one of the nine grades.

Mr. GRIFFIN. You contract, Mr. Congressman, under the terms of that contract, to receive any one of the nine grades. It is a matter of contractual agreement.

Mr. JONES. He can limit it by the contract and protect himself that way.

Mr. GRIFFIN. He can be specific, of course, and that is exactly the way the business is done. No two men use exactly the same quality of type of wheat; they buy the particular quality that fits their business, and they use the future market as an insurance, and when they make a cash purchase then they close out their future contract. They use future contract as an insurance market.

Mr. TINCHER. One of the bills pending before this committee seeks to limit the amount of grain that any one person can purchase or sell to 200,000 bushels. I do not think I have any constituents that raise that much grain, but I wondered if it could be said that a producer of grain could possibly be benefited by placing that limitation on the individuals purchasing grain. Of course there are exporters that purchase that much grain, are there not?

Mr. GRIFFIN. My dear sir, in the Chicago market they have bought 10,000,000 or 15,000,000 bushels of grain a day—bought it all through the futures market, and done it day after day.

Mr. TINCHER. A man named Crosby, at the head of the Crosby Mills, testified before this committee in the original hearings that they required considerably more grain than that.

Mr. GRIFFIN. Why, we have industries—for instance, we have concerns like the Corn Products Co. and the Quaker Oats Co.; I do not know their exact consumption, but I should say it approximates 150,000 bushels a day. We have mills that consume from 50,000 to 100,000 bushels a day—at all of their mills.

Mr. TINCHER. I do not want the law to favor the big purchaser, but on the evidence we have had I do not feel like limiting any man to the amount of grain that he could produce. Of course when we do not limit it we are taking a chance on some man running a corner.

The CHAIRMAN. Did I understand you to say that some purchasers bought 15,000,000 bushels for speculation?

Mr. GRIFFIN. No; I am talking about exporters.

The CHAIRMAN. Well there is no limitation as to what they purchase themselves and use in their business. We are talking now about limitations on amounts beyond their requirements.

Mr. GRIFFIN. The Congressman asked me if exporters did not buy as much as 200,000 bushels a day, and I told him that there were

transactions of 10,000,000 or 15,000,000 bushels of grain a day. I am talking about exporters.

The CHAIRMAN. They intend to use it in exporting it?

Mr. GRIFFIN. Yes; and they buy it as a hedge.

The CHAIRMAN. There seems to be some distinction between a hedge and speculation and gambling.

Mr. GRIFFIN. There is; there is a marked distinction.

Mr. GERNERD. I may be very stupid, but I have been reading that volume of testimony that has been handed to me, and I am still trying to get a practical conception of the difference between a hedge and a future speculation. I understand that hedging is a matter of insurance to the man?

Mr. GRIFFIN. It is price insurance. I believe you were not present, Mr. Congressman, but it has been very thoroughly explained here.

Mr. GERNERD. I will read your testimony; I do not want you to go over it again.

The CHAIRMAN. Are there any further questions? If not, we are very much obliged to you. Who is the next witness, Mr. Wells?

Mr. WELLS. Mr. Devore, of the Toledo Products Exchange.

STATEMENT OF MR. H. R. DEVORE, REPRESENTING THE TOLEDO PRODUCTS EXCHANGE, TOLEDO, OHIO.

Mr. DEVORE. Mr. Chairman, my statement will be very brief. I simply wish to indorse in full the statement made yesterday by Mr. Wells. I can not add anything to that statement, but if there are any questions I shall be glad to endeavor to answer them.

Mr. CLAGUE. I did not understand your business.

Mr. DEVORE. I am at Toledo, in the grain business. I represent the Toledo Products Exchange.

Mr. CLAGUE. Do you handle much grain at Toledo? Is that a grain market?

Mr. DEVORE. Oh, yes; that is a regular grain market. At least, we think it is.

Mr. TINCHER. Mr. Griffin, I intended to ask you a question that I overlooked. Do you agree with Mr. Wells in his statement that this Congress ought to pass some legislation with respect to this matter, and pass it quickly?

Mr. GRIFFIN. Well, I do not know of any particular reason why I might suggest that it be expedited.

Mr. TINCHER. Well, the States are passing laws of this kind.

Mr. GRIFFIN. From that point of view, speed would be desirable, so that you may have some uniformity.

Mr. TINCHER. Do you believe that a law actually on the books would have a tendency to stabilize the situation?

Mr. GRIFFIN. I should rather think so.

Mr. TINCHER. Mr. Devore, do you feel that way about it?

Mr. DEVORE. Yes, sir.

Mr. GERNERD. As I understand it, they are having hearings on the subject over in Illinois now.

Mr. GRIFFIN. I understood the hearings were adjourned there just last week.

The CHAIRMAN. Mr. Devore, tell us something about your exchange and your rules. What is your exchange?

Mr. DEVORE. Our exchange is similar to all other exchanges. We have a meeting place; we provide a meeting place the same as the Chicago Board of Trade or any other exchange. We have a set of rules, of course, somewhat similar to those in Chicago.

The CHAIRMAN. Are futures bought and sold on your exchange?

Mr. DEVORE. Yes, sir. Wheat is the one thing we are trading in at the present time, and since trading in wheat has only been in progress a short time since the Government turned over the control, we have not got back really onto much of a trading basis. The stock of wheat at Toledo is very low. The exchange trades is only one variety; that is soft winter wheat. We have no stock really to trade on.

The CHAIRMAN. How many grades are deliverable on your contract?

Mr. DEVORE. Only three—No. 2 red, No. 1 red, and No. 3 red, at specified discounts.

The CHAIRMAN. Do you have fixed or commercial differences?

Mr. DEVORE. Fixed.

The CHAIRMAN. What are they?

Mr. DEVORE. No. 2 red is the deliverable contract. No. 1 may be delivered at 2 cents premium, and No. 3 at 5 cents discount.

The CHAIRMAN. Does that work out satisfactorily?

Mr. DEVORE. It has done so thus far; yes, sir. That has been in vogue for a number of years.

The CHAIRMAN. Do you agree that the fixed differences would be as practicable and satisfactory as the actual commercial differences?

Mr. DEVORE. Well, we have found it that way at Toledo so far. Of course, Toledo is not really a very big future-delivery market.

The CHAIRMAN. But the arrangement is satisfactory?

Mr. DEVORE. Yes; the arrangement is satisfactory so far, apparently. It has been in vogue a good many years on that basis.

Mr. TINCHER. What is meant by commercial differences in grades of wheat?

Mr. DEVORE. Well, I presume that as the demand for the different grades of wheat comes into a market that fixes the commercial value, does it not?

Mr. TINCHER. Well, I do not know. How much does this No. 3 wheat of the type or variety that you deal in there have to weigh to be No. 3?

Mr. DEVORE. Fifty-six pounds.

Mr. TINCHER. And 57 pounds is No. 2.

Mr. DEVORE. No; 58 is No. 2.

Mr. TINCHER. And 57 is what?

Mr. DEVORE. Fifty-seven would be No. 3.

Mr. TINCHER. And anything over 58 pounds is No. 2?

Mr. DEVORE. Sixty-pound wheat would be No. 1, provided it was of No. 1 quality otherwise.

Mr. TINCHER. As to color, etc.?

Mr. DEVORE. Yes, sir.

Mr. TINCHER. I do not know whether I understand the commercial differences or not. There was a time during the war when there was a foreign demand for the dark flour that was better than the local demand for other flour, so I suppose there was not any real commercial difference at that time. But ordinarily there is quite a commercial difference in the grades of flour, and the millers

got around that commercial difference by mixing the wheat in making their flour, did they not?

Mr. DEVORE. I do not know anything about that.

Mr. TINCHER. Do you, as a grain man, have any idea in the world about how to approach the proposition of establishing a commercial difference between No. 2 and No. 3 wheat?

Mr. DEVORE. I do not believe I would; no, sir; not without a lot of thought.

The CHAIRMAN. The spot market determines that?

Mr. DEVORE. From day to day; yes, sir.

The CHAIRMAN. If No. 3 is selling for 5 cents below No. 2, it is 5 cents; if it is selling for 3 cents below, it is 3 cents. That is the way it is established on cotton; they take the spot markets in the five or six cotton markets, take the average differences in those five markets, and the average of that is the commercial difference.

Mr. VOIGT. Mr. Griffin, I wonder if you can tell us what character of legislation is proposed in Illinois?

Mr. GRIFFIN. There are two bills in Illinois. One is a public marketing bill, so called, and the other is an anti short-selling bill. I think that is the best designation I can give you.

Mr. VOIGT. The marketing bill does not particularly touch this feature that is under consideration here?

Mr. GRIFFIN. Not at all. The marketing bill declares all boards of trade and enchanges public market places. It is somewhat like the Steenerson bill which has been introduced in this House.

Mr. VOIGT. The other bill proposes to make short selling illegal?

Mr. GRIFFIN. That is substantially what it proposes to accomplish.

Mr. VOIGT. And that is a more drastic bill than there is before this committee?

Mr. GRIFFIN. Yes, sir.

The CHAIRMAN. Do you care to offer any observation on the Steenerson bill? That is also before this committee.

Mr. GRIFFIN. Mr. Chairman, I have made no particular study of that. I have read the Steenerson bill, but I do not know that I have any observations to offer. I might say that the Chicago Board of Trade has never objected to the cooperators becoming members in our organization. We have had but two applications in our history, and both have been accepted. We have no rules against farmers or cooperative elevators coming into our ranks.

The CHAIRMAN. Would there be any objection, then, to the passage of the bill?

Mr. GRIFFIN. I have none to offer, but to be perfectly frank with you I do not know. There may be some objectionable feature that would be disclosed, possibly, with study. I shall be here until Saturday, and I shall be glad to make a study of it to-night and discuss it with you to-morrow if you wish.

The CHAIRMAN. The bill was reported last session, without any extensive hearings.

Mr. VOIGT. Does this bill proposing to make your exchanges open markets contemplate that there shall be no membership in that market?

Mr. GRIFFIN. No; the bill, as nearly as I can recall it, simply recites that any so-called board of trade, exchange, or market place handling grain, etc., shall be deemed to be a public market place, and

then it goes on to place the control of the so-called public market places under the secretary of agriculture of our State.

Mr. VOIGT. That bill then does not purport to give anybody membership in your organization that is not duly elected according to your by-laws?

Mr. GRIFFIN. I believe there is a part of the regulations that provides a penalty for any discrimination as to persons admitted to membership. There is a clause of that kind; the exact language I do not remember.

Mr. VOIGT. So a man would have to buy a membership in the exchange notwithstanding, if that bill becomes a law?

Mr. GRIFFIN. Oh, yes; it is not designed, Mr. Congressman, so that any person ipso facto can walk in and join an exchange; but to give the State jurisdiction, they first declare such places to be public market places.

Mr. VOIGT. It virtually declares them to be public utilities, in other words?

Mr. GRIFFIN. Substantially that; yes, sir.

STATEMENT OF MR. CHARLES H. WRIGHT, PRESIDENT OMAHA GRAIN EXCHANGE, OMAHA, NEBR.

The CHAIRMAN. Mr. Wright, whom do you represent?

Mr. WRIGHT. The Omaha Grain Exchange, of Omaha, Nebr.

Mr. CHAIRMAN. I just wanted to add in a small way what I could to what has been said here in favor of an option market and a broad hedging market. Omaha, as you all know, is one of the younger exchanges, and we have no option market. We did have an option market for several years, up to the time the war broke out, when we discontinued it. We had rather a limited experience operating an option market, and I would like to recite our experience there along that line, to try to demonstrate to you the fallacy of trying to curtail in any respect a broad hedging or broad speculative market.

Our market was so narrow at times that even a trade of 5,000 or 10,000 bushels would cause our market to fluctuate as much as 5 or 10 cents a bushel. It is absoluetly impossible, I think, to try to operate a market without a broad open market.

I believe, too, that if it were not for the fact that Chicago has been a broad open speculative market, practically 100 per cent of the corn in the Middle West would still be on the farms. There would have been no market for corn had it not been for the Chicago market.

Mr. JONES. How long has that exchange been operating, Mr Wright?

Mr. WRIGHT. About 15 years.

The CHAIRMAN. Is there any corn moving now?

Mr. WRIGHT. Practically no corn, Congressman; very little.

The CHAIRMAN. How about other cereals?

Mr. WRIGHT. The movement is very light.

Mr. ASWELL. What do you think of this bill?

Mr. WRIGHT. I think the bill is all right.

Mr. GERNERD. Will this bill, in your opinion, correct the vices that it is intended to correct? From your experience, is it a practical proposition?

Mr. WRIGHT. I think that to a great extent it will. I have not had a chance to read the Tincher bill; in fact, I just got a copy of it a few minutes ago.

Mr. PURNELL. It is your idea, is it, that we can not hamper in any way the purely speculative transactions without crippling general conditions?

Mr. WRIGHT. I think it would limit the market to the extent that it would cripple it. In my judgment, if you attempt to curtail speculation in the market you make a market much easier to control or run a corner in than under the present conditions.

Mr. PURNELL. Of course, you want to see the legitimate transactions continued?

Mr. WRIGHT. We absolutely have to have that, Congressman, or we could not exist.

Mr. PURNELL. By speculative dealings I mean transactions in which the buyer and seller expect to actually receive or deliver the product. Do you think that ought to be permitted to continue?

Mr. WRIGHT. I think so, Congressman, in order to make a market broad enough to execute the trades of the country. You will understand that Chicago, of course, handles practically all the grain trade of the country.

Mr. PURNELL. The statement was made by one of the witnesses that purely speculative transactions had a tendency to increase the price of the product to the producer and to decrease the price to the consumer. Do you agree with that conclusion?

Mr. WRIGHT. That is rather a broad statement, but I think it works to that end. Our system of handling grain is such and our margin of profits is so exceedingly small that I do not believe a system has been devised that will take the place of our present system.

The CHAIRMAN. Your market is more of a corn market, then?

Mr. WRIGHT. Largely corn, but we handle a great deal of wheat and oats.

The CHAIRMAN. Are there any other questions? If not, we are very much obliged to you, sir.

STATEMENT OF MR. G. F. EWE, REPRESENTING THE MINNEAPOLIS CHAMBER OF COMMERCE, MINNEAPOLIS, MINN.

Mr. EWE. Mr. Chairman, I have been delegated by the president of the Minneapolis Chamber of Commerce to appear here before you gentlemen this afternoon. I do not know that I can add anything substantially to what has been said, but I am heartily in accord with the sentiment that has been expressed here that if you restrict trading in futures in grain to the classes suggested in this bill it will automatically eliminate speculation and automatically deprive the country elevator operator of the opportunity of hedging his grain.

That is for the reason that the country elevator operator in the conduct of his business wires his commission house in Minneapolis, if you please, to sell 5,000 bushels of wheat, and if trading in futures is to be confined to the classes indicated in this bill, he will have to wait until the miller is ready to come into the market and buy a hedge against his flour sales, or until an exporter comes into the market and buys a hedge against his export sales. And if you hap-

pen to be in the milling business or in the export business you will have to carry that until such time as these men are interested in buying these futures against their sales. For this reason it will automatically result in a substantial increase in the hazard of the conduct of the country elevator's business, so that he will have to exact a toll that is commensurate with the increased hazard that he assumes, and thereby increase the spread between the producer and the consumer and destroy the present most economical machinery known in the world for handling the product of the farmer.

Let me give you an illustration of the results. We have, as you all know, discontinued trading in futures in wheat during the operation of the Grain Corporation, and future wheat trading has only been resumed here since last July. As you all know, some of the people, in the Northwest particularly, have been strong advocates of it, in the belief that the wheat price, which stood at around $2.50, was going to $3 a bushel, and the flax level, which at that time was around $5 a bushel, was going to go to $6 a bushel. They strongly urged and advocated that the farmers' elevator and cooperative houses, which comprises the larger number of the country elevators in the Northwest, refrain from hedging their grain, and many of them followed the suggestion. The result is that the larger proportion of the independent and farmers' elevator companies in the Northwest are in financial distress to-day.

The chairman asked the question as to the relation of cash wheat to futures. They have always been very closely in harmony one with another. The lower grades that are admissible for delivery on contracts for the higher grades have always been in excess of the relation of the lower grades to the higher grades by from half a cent to 2 cents a bushel. So the man that delivered No. 2 wheat or No. 3 wheat on a contract for future delivery was penalized to that extent. It was simply done, as was explained here, to safeguard the transaction.

I do not know that there is anything I can add to what has been said, but I shall be glad to answer any questions that may have occurred to you or to dilate at length on the other phases of the bill, if you wish. But as I say, I do not think I can add anything to what has been said.

If the elimination of the indemnities is in your judgment wise, we are heartily in accord with it. That class of trading in our market is necessarily very limited. We do not trade in indemnities to anywhere near the extent that they are traded in in Chicago.

As to the private wire feature, Minneapolis is not engaged in the private wire enterprise. They have no private wires that run from or to Minneapolis, other than those that are controlled by Chicago. So the membership of the Minneapolis market place is not concerned in the question to the extent that the Chicago Board of Trade is.

Mr. HAYS. May I ask you a question right there? Does the gambler hedge?

Mr. EWE. The gambler? I do not know whom you mean?

Mr. HAYS. The fellow who puts the puts and calls. Does he hedge—the man that purchases wheat merely for the opportunity of making a profit on his purchase? Does he hedge?

Mr. EWE. I think you have in mind the man who buys puts and calls originally. Is that your question?

Mr. HAYS. Well, answer that question.

Mr. EWE. Well, the man that buys privileges—the original function of buying puts and calls was to enable a man who had offered wheat to the other side of the water, by cable if you please, and who could receive no response to the cable until the following morning, to buy these indemnities, to buy a call, if you please, to indemnify him against an advance in the market that might occur between the close of the market to-day and its opening to-morrow when he had the reply to his cable.

Mr. HAYS. Then you are really making out the man who makes the puts and calls to be a hedger?

Mr. EWE. That was the original purpose of the indemnity. Answering your question further, I think you have this in mind: A man that buys calls on futures will, in case the market is up, sell against those calls. If he buys a put and the market goes down below the put, he will buy wheat. Because he can put the wheat, and his trades will be all closed up before the close of a session, or he can call the wheat and his trades will all be closed up before the close of the session.

Mr. HAYS. Another question, then: A man from the outside goes into the board of trade and buys a million bushels of wheat, merely on a speculative purchase, without any idea of use, but merely waiting for the market to advance. That man necessarily would be called a gambler?

Mr. EWE. He would be called a speculator, I should say.

Mr. HAYS. Well, he is a speculator. Does he hedge?

Mr. EWE. What do you mean by hedging?

Mr. HAYS. Does he insure his purchase?

Mr. EWE. Why, his purchase is insured by reason of his having to take delivery if he lets that contract go to the maturity of the contract; yes, sir.

Mr. HAYS. Will you explain that again, please?

Mr. EWE. If he buys a million bushels of wheat in Chicago or Minneapolis and lets that contract go to maturity, he will get his million bushels of wheat delivered to him on that contract.

Mr. HAYS. What is he going to do with it if he is not a miller?

Mr. EWE. That is his business; I do not know.

Mr. HAYS. He does not hedge, though?

Mr. EWE. If I may make it clear to you, the man who hedges is the man who buys wheat from the farm at the country elevator. Say, he buys 5,000 bushels from the wagon. He immediately sells 5,000 bushels against that in Minneapolis. That is what we call hedging. A miller who sells 5,000 bushels of flour will buy 5,000 bushels of flour in the Minneapolis market, and that is his insurance It indemnifies him against any advance in the market, the same as the country elevator man is indemnified against any shrinkage in value.

Mr. HAYS. But the man who buys with the intention of using it for some purpose or other and then hedges insures himself?

Mr. EWE. Yes, sir; that is a hedge.

Mr. HAYS. But there is no speculative feature in that at all?

Mr. EWE. Absolutely none whatever.

Mr. HAYS. That is a real transaction?

Mr. EWE. Yes, sir.

Mr. HAYS. But the man who purchases without any intention of use, who holds it for a rise and a profit, does not benefit the country at all?

Mr. EWE. Oh, yes; he benefits the country in that he helps carry this burden, as has been explained to you here in Mr. Griffin's testimony. Here are 250,000,000 bushels of grain that is entirely burdened upon the speculative holdings, because of the fact that there is no commercially liquid asset in any other avenue than by hedging it for future delivery. If the speculator were not there then you could not hedge it, and the burden would fall upon the producer. Now it falls entirely upon the speculator.

Mr. GERNERD. So, in other words, the speculator is the power that holds up the hedge?

Mr. EWE. He is the man that makes possible the hedge.

Mr. HAYS. Whom does he benefit?

Mr. EWE. Both the producer and the consumer. You can not get away from the law of supply and demand, and temporarily he is willing to make the venture that the price level is low enough. He may be right; but on the other hand, he may not be.

Mr. THOMPSON. You spoke a while ago of a contract going to maturity. What do you mean by that?

Mr. EWE. If we buy May wheat, for instance, when that contract goes to the month of May, sometime during the month, the man will get the delivery upon the contract.

Mr. THOMPSON. The actual physical delivery?

Mr. EWE. Yes, sir. The rules of the association all provide that that contract must be satisfied by actual delivery if that contract runs to final maturity.

Mr. GERNERD. Could he, instead of taking delivery, pay up the difference between what he agreed to pay and the price at the time of delivery?

Mr. EWE. You mean by selling out the contract, if he is long a million bushels of wheat? Yes, sir; he is privileged to pay whatever difference there may be.

Mr. GERNERD. He may take that loss in preference to buying the wheat?

Mr. EWE. That may be.

Mr. GERNERD. And when he does that, does not that help to drive down the actual price of the wheat?

Mr. EWE. Not at all; the law of supply and demand prevails.

Mr. JONES. Is it not true that the average man who deals in puts and calls is simply speculating on the temporary conditions in the market?

Mr. EWE. Yes, sir; I think that is right.

Mr. JONES. Those are usually limited to just a day or two?

Mr. EWE. Yes, sir.

Mr. HAYS. We have had other witnesses here who, my understanding is, were not entirely in accord with the put and call men.

Mr. EWE. I am not either.

Mr. HAYS. Well, in your testimony here you have endeavored to justify the put and call.

Mr. EWE. If I conveyed that impression I am sorry, because that was not my intention. I simply tried to explain the original purpose of puts and calls. An exporter would buy a million bushels of calls against a cable that he had sent offering a million bushels of wheat.

Mr. HAYS. But the necessity for that has passed away?

Mr. EWE. I think so, largely; yes, sir.

Mr. GERNERD. But still if the hedge is necesary, then it follows that we must have fellows who are speculating in wheat on margin?

Mr. EWE. Yes, sir.

Mr. GERNERD. To sustain the hedge?

Mr. EWE. Absolutely. If you do not have that, as I have tried to explain to you, then you have to wait until the seller meets a buyer, as defined in this law here, which is practically impossible at times, thereby automatically carrying the burden back to the country elevator operator who, because of his inability to obtain that protection immediately when he buys his grain, is compelled to exact a greater toll and thereby create a greater spread between the producer and the consumer. On the other side, the man who sells the product to the consumer, by virtue of his inability to buy that protection, has to exact a greater margin of toll from the consumer.

Mr. GERNERD. And therefore, according to you testimony, that bill would destroy the utility of the hedge?

Mr. EWE. Yes, sir; if confined to this personnel that is indicated in this bill.

Mr. TINCHER. Whom does that bill exclude?

Mr. EWE. The speculator.

Mr. TINCHER. What bill are you talking about?

Mr. EWE. Your bill, Mr. Tincher. As I interpret this bill, it confines the activity of future trading to the man who raises the grain or actually delivers grain, either in the form of flour or for export.

Mr. STEENERSON. Mr. Chairman, may I ask this gentleman a question?

The CHAIRMAN. Certainly.

Mr. STEENERSON. Suppose a country elevator buys to-day 50,000 bushels of wheat and sells it on the board of trade at a future, what is the actual transaction in money paid?

Mr. EWE. That depends.

Mr. STEENERSON. Under ordinary conditions.

Mr. EWE. If I may be allowed to carry out that suggestion of yours, he buys 50,000 of wheat at his country elevator, as I understood your proposition, and he sells 50,000 bushels against it, and that is simply an indemnification to him against any change in value.

Mr. STEENERSON. You are not catching my point. What I wanted to know is, What in the money transaction that occurs under those circumstances?

Mr. EWE. The natural course of procedure of that country elevator operator would be to ship the 50,000 bushels of wheat to Minneapolis——

Mr. STEENERSON. You are not catching the point. He would pay the value of the wheat to the farmer from whom he purchased it?

Mr. EWE. Yes, sir.

Mr. STEENERSON. He would pay out $50,000, supposing wheat was a dollar a bushel?

Mr. EWE. Yes, sir.

Mr. STEENERSON. And he would order 50,000 bushels sold?
Mr. EWE. Yes, sir.
Mr. STEENERSON. Now, what would he get?
Mr. EWE. He would ship that wheat into the market——
Mr. STEENERSON. No; what would he get on the sale of the futures?
Mr. EWE. I must explain that to you in order to enlighten you on that point. He can ship that wheat in and deliver it and get his $50,000——
Mr. STEENERSON. No; he has got it in his elevator.
Mr. EWE. Well, he has got to move it into the terminal in order to make it deliverable on the contract.
Mr. STEENERSON. Suppose he sells 50,000 bushels; what does he get? Does he get any money?
Mr. EWE. Not at that time; no.
Mr. STEENERSON. And what does he pay?
Mr. EWE. He does not pay anything—he pays the farmer $50,000.
Mr. STEENERSON. Now, the broker who sells that—what does he get?
Mr. EWE. He gets a commission for his services.
Mr. STEENERSON. And that is all he gets?
Mr. EWE. That is all he gets; yes, sir.
Mr. STEENERSON. And the person to whom he sells it—what does he pay?
Mr. EWE. I do not see the purpose of your question; I do not see what you are trying to get at.
Mr. STEENERSON. What does that man to whom he sells this 50,000 bushels of wheat pay?
Mr. EWE. If that contract goes to maturity he will pay the price at the time of the contract.
Mr. STEENERSON. I mean at the particular time.
Mr. EWE. Well, I do not understand the purpose of your question.
Mr. TINCHER. What difference does it make what the purpose is; why don't you answer it anyway?
Mr. EWE. Here is the proposition: Two members of the Minneapolis Chamber of Commerce, if you please, engage in a contract for future delivery. One represents the country elevator operator, and the other represents the miller, exporter, or the speculator. Now, the consideration that passes at the time of this transaction is of no consequence in the final fulfillment of this contract. Under the method of procedure in future trading in our market, if that sale is made, as you have suggested, at $1 a bushel and the market closes at 90 cents, then the buyer pays to the clearing house 10 cents a bushel at the close of business that day, and the seller gets 10 cents a bushel from the clearing house at the close of business that day.
Mr. STEENERSON. What would be the date of delivery?
Mr. EWE. Well, we trade in May wheat, and we trade in July wheat.
Mr. STEENERSON. All right. Suppose he sold his 50,000 bushels for July delivery. What would the country elevator get from any person? I mean right now, to-day?
Mr. EWE. When that sale for July was made? He would not get anything.

Mr. TINCHER. Yes, he would. He would get a sight draft from his commission company for his margin.

Mr. EWE. Of course that would depend.

Mr. STEENERSON. In other words, the farmer would pay out his $50,000, but he would likewise pay out his commission to his broker in Chicago? Is not that correct?

Mr. EWE. But he would be indemnified against any fluctuation.

Mr. STEENERSON. Well, is not that correct?

Mr. EWE. He ought not to pay that commission until that transaction is consummated.

Mr. STEENERSON. Would he pay the commission as soon as the sale was made?

Mr. EWE. No.

Mr. STEENERSON. Then it would be charged up to him?

Mr. EWE. No.

Mr. SINCLAIR. But he would have to put up his margin, would he not?

Mr. EWE. He would have to put up his margin.

Mr. STEENERSON. Now, then, it comes around to June. Has the man who bought that 50,000 bushels of wheat for delivery in July paid as yet anything on the wheat?

Mr. EWE. If the market has declined he has paid the difference between his original purchase price and the then value.

Mr. STEENERSON. Under conditions like these just described, do you say that the speculator is carrying the 50,000 bushels of wheat, and not the man that runs the elevator?

Mr. EWE. Yes, sir.

Mr. STEENERSON. Although the man that runs the elevator has paid out $50,000 and this man has paid nothing but his margin?

Mr. EWE. This speculator that you have indicated has bought that wheat at a dollar a bushel for July delivery. He assumes all the liability of any shrinkage in values that might prevail from the date of that purchase to the date of the sale by the country elevator operator, until the delivery is consummated. If the price goes down to 50 cents a bushel he has indemnified the country elevator operator against that shrinkage in value, and the country elevator operator is in no way affected if the price goes up 50 cents a bushel, because he has the original 50,000 bushels of wheat that he bought and has sold 50,000 bushels against it to indemnify himself against any loss.

Mr. STEENERSON. As a matter of fact, the wealth or the value of that 50,000 bushels is all the time, up to July, carried by the elevator man?

Mr. EWE. Not necessarily. He can ship that wheat in; he can liquidate the wheat and buy in the hedge.

Mr. STEENERSON. Would he not do that if he did not have any hedge?

Mr. EWE. No, sir; he could not. He absolutely could not. It would create a condition, as I have tried to indicate to you, such that since you can not buy that indemnity you have to have a toll that is commensurate with the increased liability you assume. And the only way the country elevator operator can do business on the small margin that he does is that he is able to buy that protection against any shrinkage in value. You are mistaken in your opinion

when you say he can do it without those future hedges, because it can not be done.

Mr. TINCHER. I think what Mr. Evans is trying to do, or is driving at, is this: Some enthusiastic witnesses in favor of speculation have dropped the remark in the committee from time to time that some one had to carry this wheat from the time it was thrashed until it was milled, and there has been all the time, throughout these hearings, from the time they started last December, the statements made that there must be the speculator; what he wants you to admit—and I do not think you ought to have any hesitancy in doing it—is that the speculator does not carry the actual physical risk all this time.

Mr. EWE. He does, to a certain extent.

Mr. TINCHER. To what extent? The man has borrowed the money on the wheat at his home bank, and sold an option on Minneapolis; now, what physical transaction was there?

Mr. EWE. As I tried to explain to you, when he makes that transaction he is absolutely indemnified against shrinkage in value.

Mr. TINCHER. Let me see if I can tell you what he does: His broker or commission man tells him he has to put up so much margin; he pays that margin—he pays that money, and if he wants to hold it until July, he holds it until July, but the home bank has the actual financial investment in it.

Mr. EWE. Not usually with us. The Minneapolis grain elevators carry those, with us.

Mr. JONES. The speculators carry the risk?

Mr. EWE. Yes; he carries the risk of the shrinkage.

Mr. SINCLAIR. The country elevator has in it the price of that wheat, no matter where he got it, he has the money in it?

Mr. EWE. Yes.

Mr. SINCLAIR. And also the margin he has to put up of 10 cents or 20 cents in the future; so he really has the price of the original 5,000 bushels of wheat, and the margin he puts up to indemnify him?

Mr. EWE. The amount of margin he had to put up with his business house depends upon the financial integrity and standing of the individual. But he is indemnified against shrinkage. Otherwise we could not conduct the elevator business the way it is to-day, and the farmer who comes to town with his wheat, there is nobody there to buy it, and he has to haul it back home.

Mr. TINCHER. That is your whole argument, is it not? That the financial system of the country is such that a man who wanted to buy wheat and hold it for future delivery could not be financed unless we had these exchanges?

Mr. EWE. This applies to a great many men. And the man who could finance it would demand a toll commensurate with the hazard that he would assume.

Mr. KINCHELOE. All the responsibility the speculator has in the deal he is responsible for the amount of shrinkage?

Mr. EWE. That is all.

Mr. KINCHELOE. The elevator man is the man that has the money in it?

Mr. EWE. Yes, sir.

Mr. KINCHELOE. He has borrowed the money on it and has a mortgage on it?

Mr. EWE. Yes, sir.

Mr. KINCHELOE. That is simply an insurance to the elevator man?

Mr. EWE. That is all.

Mr. TINCHER. Some of the best milling men in the country claim that the country would be better off without hedging at all.

Mr. EWE. Your friend Moses in Kansas City?

Mr. TINCHER. I said, some of the very best millers.

Mr. EWE. Yes; I accept that.

Mr. KINCHELOE. What would that transaction illustrate here—you say that is of benefit to the consumer and to the grower. Now, up to that time the country elevator man who buys 5,000 bushels of wheat borrows the money on it—say, now, you are the speculator and I am the elevator man, and I insure you for July delivery. That thing is standing still; I have an option in the meantime to call it off?

Mr. EWE. Yes, sir.

Mr. KINCHELOE. While that is standing still, with the contract not completed, why the grower of the wheat has it out of his hands and it is not yet in the consumers' hands, because it is not yet sold. How does that affect it either way, while it is standing still there?

Mr. EWE. Now, when he makes his initial purchase from the farmer of the 5,000 bushels of wheat, competition forces him to recognize this insurance——

Mr. KINCHELOE (interposing). You mean, he pays the producer more?

Mr. EWE. Absolutely.

Mr. KINCHELOE. Suppose, instead of being a country elevator man, I bought it for a miller?

Mr. EWE. Yes.

Mr. KINCHELOE. And I go out and buy the same 5,000 bushels of wheat from the farmer, won't I pay as much as you would?

Mr. EWE. You have to, because I force you to do it.

Mr. KINCHELOE. What effect does that have on the market?

Mr. EWE. It simply means this——

Mr. KINCHELOE (interposing). You fellows say one thing one minute, and then the next minute you say it is due to demand and supply altogether.

Mr. EWE. Now, let me explain. Carry your illustration further. You are human, I assume, and you would exact as large a toll from the farmer as you could, if the country elevator operator did not force you to pay the price.

Mr. KINCHELOE. I would buy as cheap as I could.

Mr. EWE. The country elevator can buy and do business for 2 cents a bushel, and they force you to pay the same. Otherwise you could not buy the wheat.

Mr. KINCHELOE. But competition will do the same thing.

Mr. EWE. No; here are three or four elevators, or five elevators at a station——

Mr. KINCHELOE (interposing). You say that has a reflection on the market. Suppose those five country elevators at a station all go together and say, "We are down here a hundred miles away from anybody else; we five fellows will say we will not pay over so much." Would that help the farmer?

Mr. EWE. If you could bring that about, it would not.

Mr. KINCHELOE. If you and I and the other three fellows have elevators, we can do that.

Mr. EWE. Yes, certainly, you could.

Mr. KINCHELOE. We haven't any scruples against getting together——

Mr. EWE (interposing). There is no such thing possible.

Mr. KINCHELOE. You say you can control it up; can't you control it down?

Mr. EWE. I don't think you can. I am simply trying to convey this impression to you: By virtue of the country elevators buying this protection, he can do business on a smaller margin. If he can buy that protection, he can do business on a smaller margin.

Mr. KINCHELOE. I will grant your premise; if he can buy this additional insurance, he can afford to pay more. But won't he buy as cheap as he can?

Mr. EWE. Yes; but you eliminate a large part of the situation. No banker is going to loan a man money to operate a country elevator, unless he can be reasonably sure to get that money back again to himself. As I tried to explain to you, a large part of the elevator operators—a large number of the country elevators are encouraged not to take advantage of this ability to purchase against the farmer, because they said wheat was going to $3 a bushel, and now many of them are in financial distress.

Mr. KINCHELOE. They can buy protection now, can they not?

Mr. EWE. Yes, sir.

Mr. THOMPSON. I would like to illustrate that proposition of insurance by what occurred in my district. In a little town in my district there were two elevators. One was a commercial elevator and the other a farmers' elevator. One of my friends in a little town owned two farms, and raised wheat, and he was a business man, and he said to his renter, "I am going to sell my wheat right now." He says, "You can do what you please with it." He went out there to the farm and a representative of the commercial elevator came along and offered him $2.50 for his wheat. He says, "I will take it," because the other elevator—the farmers' elevator—was not offering quite as much. He sold his wheat. They agreed to take it right from the threshing machine for $2.50, and he sold it.

The next day wheat dropped and has been dropping ever since. The farmers' elevator people could not understand why these other people could pay the price; why they could buy the wheat at $2.50. They said he must have lost a lot of money. They kept paying the market price. It developed afterwards that this commercial elevator man had sold 10 carloads at $2.80, and he was protected. I have had these farmers' elevators, some of them—recently one of them busted up right in my county to the tune of abut $40,000.

Mr. EWE. Yes; a lot of them are.

Mr. THOMPSON. Because they did not have commercial or business men who understand the grain trade to handle the wheat.

Mr. EWE. That is it.

Mr. CLARKE. We have had the same experience with the creameries, the associations for making butter and cheese. They would manufacture it, and a committee, usually three of them, would go and market it, and they found when they got up in competition with

the keener minds that were awake to all the tricks of the trade, and the rest of it, that nearly every one of those creameries has sooner or later gone broke.

Mr. TINCHER. The Quaker Oats people were here when you were here before, and they said it was not an absolute protection. But I guess there are exceptions to the hedging and saving loss, are there not?

Mr. EWE. You are touching on something that is not in this; that hasn't any particular bearing on this particular case.

Mr. TEN EYCK. Pardon me for just a question. Is there not enough speculation in the grain market by users of wheat—by that I mean millers and choppers and things of that kind—to sustain that market without that class of people who are gambling from day to day?

Mr. EWE. Absolutely no; without the speculation men, and the spasmodic buying against futures, and the spasmodic buying for export, you would not have any market that would enable the buyer and seller to get together. And you would automatically create a condition such as I mentioned, that they would have to have a larger toll to assume that liability.

Mr. TEN EYCK. Is it not also true—I am speaking now of the real speculative buyers—are they not the fellows that can either drive it up or down artificially; do they not create an artificial condition several times a year, which does not reflect either the supply or the demand?

Mr. EWE. There may be a temporary, and it is a very temporary influence by such a condition as you cite; but it is only very temporary. The law of supply and demand prevails absolutely.

Referring back to your question once more about the exporter and the miller and the legitimate user of wheat, you know that for days—days pass when there is no selling, and days pass when the miller would not sell any substantial amount of flour.

Mr. TEN EYCK. Yes.

Mr. EWE. During that period, if the elevator man wants to protect himself against the farmer, how can he do it, if he has not the speculator in there to protect him?

Mr. TEN EYCK. Let me ask you something—it is not relevant probably here: Was the rate of exchange between here and Canada one of the big factors in making that drop in wheat last summer?

Mr. EWE. That was one of the factors; yes.

Mr. EVANS. I would like to ask one more question. In your experience, what is your experience as to whether speculators as a class become bankrupt?

Mr. EWE. What is the question?

Mr. EVANS. What, in your experience, is the fact as to whether or not speculators, or persons you have described as speculators in wheat—as to whether they become bankrupt or not?

Mr. EWE. Very many of them do.

Mr. EVANS. What is the percentage, as nearly as you could approximate it?

Mr. EWE. I have never followed it closely enough to arrive at a conclusion on a percentage basis. But I have heard it frequently said that a speculator, if he is 52 per cent right, he is very fortunate indeed.

Mr. TEN EYCK. That is a high average, is it not?

Mr. EWE. I think so.

Mr. EVANS. Then, if they are even 50 per cent right, they make as much as they lose?

Mr. EWE. Yes; if that is so, that is right.

Mr. EVANS. So that, as a matter of fact, the ultimate decision would necessarily be that this man who carried that insurance had lost nothing?

Mr. EWE. That is a very big, broad question; I could not answer that.

Mr. CLARKE. If they are only 50 per cent right, aren't they losers, for the reason that they have interest and carrying charges, and the rest of it?

Mr. EWE. Yes, sir.

The CHAIRMAN. If there are no further questions, we are very much obliged to you, Mr. Ewe.

STATEMENT OF MR. B. P. ST. JOHN, OF THE ST. JOHN GRAIN CO., WORTHINGTON, MINN.

The CHAIRMAN. Kindly give your name and address and business.

Mr. ST. JOHN. My name is B. P. St. John; I am with the St. John Grain Co., at Worthington, Minn. Worthington is in the southwest corner of Minnesota. I am a country grain dealer. I have bought grain from the farmers there in southwestern Minnesota for 35 years. Our firm, the St. John Grain Co., handle about a million to two million bushels a year, the total handling, direct from the farmers, and ship it to the market, or sell it to local consumers in parts of Minnesota, North Dakota, and Wisconsin.

The larger part of our grain is sold through the exchanges at Minneapolis and Chicago; more particularly Chicago, because it is corn and oats, and we ship when we can not find a market at home in the country.

We aim to hedge our grain, and have for years, and the consequence is we do not make much money and get rich. We handle an immense amount of grain in the aggregate.

Mr. TEN EYCK. You say you aim to hedge it?

Mr. ST. JOHN. Yes; we do not follow that as close as other operators, but we do not take any long chances.

Mr. JONES. Throughout the year do you hedge all the grain you buy?

Mr. ST. JOHN. We aim to. Sometimes we are a few thousand bushels long.

Mr. KINCHELOE. I do not think this question has been asked: What does it cost per bushel to hedge? What does it cost per bushel to hedge grain?

Mr. ST. JOHN. It used to be one-eighth of a cent per bushel. After the war began rates went up—rates were advanced to about three-sixteenths, and I think that is what we paid a bushel.

Mr. KINCHELOE. Now?

Mr. ST. JOHN. Now. For small trades it is a quarter and in large trades one-eighth, the last I knew, and it averaged about three-sixteenths.

Mr. KINCHELOE. Is it cheaper the bigger the amount you hedge?

Mr. ST. JOHN. On 5,000 bushel lots of corn in Chicago I think we pay one-eighth, or slightly over, and the war tax.

Mr. TEN EYCK. That is the cost of the commission?

Mr. ST. JOHN. Yes.

Mr. TEN EYCK. The cost and carrying charges?

Mr. ST. JOHN. We figure the interest and the insurance. And the amount of margin we put up—we are dealing with firms that are willing to grant us credit, and we figure the cost it takes to make a trade. For instance, we buy 5,000 bushels of corn to-day in southwestern Minnesota, and we immediately sell through our commission house in Chicago, because Chicago is the best corn market and the great market we all go to in the final end. We sell 5,000 bushels of July corn. We get somewhere around the base of the market then. It is somewhere around 64 cents, I think, July corn. We sell that, not knowing whether we are going to ship that to Chicago or not. We do not have to ship to Chicago. We have to hedge. And we have the insurance of a quarter of a cent on that 5,000 bushels. Our farmers have a habit of coming in and selling 2,000 or 3,000 bushels of corn, and we give them 15 or 20 days or more to deliver it—sometimes 30 days.

Mr. TEN EYCK. What margin do you put up?

Mr. ST. JOHN. We have not put up any for a long while, 25 or 30 years, because the people do not ask us to.

Mr. TEN EYCK. When you make this sale on the board of trade you have a carrying charge there?

Mr. ST. JOHN. No, sir; not usually.

Mr. TEN EYCK. For a few days?

Mr. ST. JOHN. We make the carrying charge. We can sell at a higher price for delivery in July; then we can have immediate delivery.

Mr. TEN EYCK. Yes; you sell at an advance, undoubtedly.

Mr. ST. JOHN. The July price is higher than the May price.

Mr. TEN EYCK. But does not the banker or broker charge you for a number of days' interest on the cost of that corn, or the selling price of that corn?

Mr. ST. JOHN. No. He may require us to pay for the margin.

Mr. SINCLAIR. There is no money put up?

Mr. ST. JOHN. There may be money put up. He may put it up, or we send him——

Mr. SINCLAIR (interposing). You put up a margin?

Mr. ST. JOHN. Yes; of 5 cents or 10 cents a bushel; and on that 5 cents or 10 cents a bushel, if he put it up for us, he would charge us interest.

Now, I will give you the process or the way we dispose of that corn. We are in southwestern Minnesota, and we go into Wisconsin and Minnesota to the dairy points and sell this 5,000 bushels of corn, if we can, to the consumers. Some years ago when the prices were good and the men would carry on enterprises on the farm they would buy that. When we make this sale of 5,000 bushels going to Manistee, Mich., or to Hudson, Wis., then we hedge in Chicago on a corresponding 5,000 bushels.

Mr. SINCLAIR. Then you pay a commission when you hedge?

Mr. ST. JOHN. No; only one commission.

Mr. SINCLAIR. I thought you charged a commission when you sold, and also when you buy.

Mr. ST. JOHN. I do not think there has been enough said in this committee on this insurance feature. This is an insurance. For 50 years or 40 years there has been this gathering together of buyers and sellers, and they have provided an insurance company. A man may use it illegitimately. He may speculate, but we do not consider it illegitimate if he is a speculator. But these men have provided a concise insurance for you or any other elevator man, and I do not know how we could buy as close as we can unless we had that insurance.

Mr. SINCLAIR. Would this bill of Mr. Tincher's in any way interfere with your handling your grain as you have described here?

Mr. ST. JOHN. Yes; unless it is amended.

Mr. SINCLAIR. In what way?

Mr. ST. JOHN. I have been in the grain business 35 years. That is a long time. I have put in a lifetime at it, and I know enough about it that if this insurance was confined to the Pillsbury mills and the Quaker Oats Co., that they would not be in the market all the time. The Quaker Oats people sometimes withdraw their bids, and sometimes they buy every day for 30 days. But on the days that they are not there to buy the speculator is there with the goods, and there are a lot of them. But there has been a lot of time required to gather together the buyer and seller—be he speculator or otherwise.

Chicago is the greatest point, because the buyers and sellers of wheat gather there in hundreds. It seems to me it has not been borne out in this committee enough—it has not been borne down on this committee enough that they should understand that the great business exchanges that are the result of 40 or 50 years of the best effort of the business men of the country, that permit the handling of these great crops and great surpluses at minimum of cost—it seems to me that should be borne down on this committee more than it has been.

Mr. JONES. Now if you buy 5,000 bushels of grain and immediately turn around and sell on the board of trade the 5,000 bushels for July delivery, you mean you do not even pay the broker's commission until you have actually disposed of your grain?

Mr. ST. JOHN. No; I do not pay the broker's commission on that until after my trade in Chicago is concluded, unless I pay him interest on what he may advance by way of margin if that corn should go up.

Mr. JONES. You have to put up the margin?

Mr. ST. JOHN. I have to keep up the interest; that is, on the advances. He would charge me interest, say, on $500.

Mr. JONES. Suppose it went up for a week, and then went back down, would he simply charge you interest for that week?

Mr. ST. JOHN. Yes; it is a running account I have with him. He would charge me on the average.

Mr. JONES. Interest on the average increases?

Mr. ST. JOHN. Interest on the average I was using.

Mr. JONES. I see.

Mr. SINCLAIR. He would protect your sale all the time?

Mr. ST. JOHN. The sale was there all the time. I settle when I have sold the actual stuff. I am very apt to sell this corn through Chicago, because that is high when other markets have gone to pieces, and it must go where there is enough market to take care of it

Mr. JONES. If you were not well known and your credit was not good, you would have to put up the margin?

Mr. ST. JOHN. I would send a check for the margins on the day I sent the order for the corn.

Mr. JONES. And they might call for more?

Mr. ST. JOHN. Yes; but I could actually decline on the 5,000 bushels, and——

Mr. JONES (interposing). I understand.

Mr. ST. JOHN. Some one raised the question here on the manner of farmers contracting grain. In southwestern Minnesota the farmers sell for the future—the future delivering of the grain—and we buy, and that grain is sold for delivery in 10 or 15 days, which is really a future sale; sometimes it is 60 days, or 90 days. Some of them sold their corn last fall at the country elevator for delivery by Christmas. The grain we buy from farmers is bought in futures, 5 or 10 or 15 days, to the extent of 50 per cent of our receipts. They sell it and bring it in when they shell it, or the oats.

Mr. JONES. Just one more question on the futures; I did not finish that. Suppose you sold within 5,000 bushels—I mean, suppose you sold the 5,000 bushels we were discussing, and it immediately went down 10 cents a bushel, would this broker allow you on that shrinkage?

Mr. ST. JOHN. No; I think not, unless it was a running account, and my credit was there, he might credit that back to me. I have not followed that down, but it would be a small item.

There is a question here on the private wire. A Chicago commission house is extending, or has extended, its private wire into a town 5 miles from where I live, a town of 5,000 people. They call our office once a day, or once a week, when they have frequent bids on corn. And we are called up, or perhaps we call them up, and we can sell a bunch of corn or oats or barley. Sometimes they are offering a good price—it may be strong, and they offer us a good price—and we sell that immediately. I do not know very much about private wires. I know that is a private wire. There is one at Sioux Falls, and one at Sheldon, Iowa. And they serve a very fine purpose to the country grain dealer located so far from Chicago or Minneapolis, and furnish an opportunity to sell. It would take five hours to get to Chicago and back. And we sometimes make these trades in a minute. It occurred to me perhaps the private wire was worthy of some consideration.

The CHAIRMAN. If it was not for the private wire you would have to telegraph to Chicago, is that the idea?

Mr. ST. JOHN. Yes, sir.

The CHAIRMAN. And that relieves you of considerable expense?

Mr. ST. JOHN. Yes; the expense would be about three times as much; but the question of time—it takes about three to five hours.

The CHAIRMAN. You are at no expense now; do not the firms maintaining the private wires furnish them free?

Mr. ST. JOHN. If they call us up, they pay it, but if we call them we pay it.

The CHAIRMAN. They sometimes reverse the call.

Mr. ST. JOHN. It gives us a quick sale, while if we wired to Chicago we have some material to sell, and we may be able to execute, or not.

The CHAIRMAN. Did you say Sheldon, Iowa?

Mr. ST. JOHN. Yes; the expense is 50 cents.

The CHAIRMAN. The expense of phoning to Sheldon is much less than phoning to Chicago?

Mr. ST. JOHN. Not over one-third. And the information we get, and the contracts we make are much quicker and more satisfactory than they are with Chicago by wire.

Mr. GERNERD. Let me ask you something: Do you believe that this bill will help to stabilize the grain products to the farmers or even tend to lower the prices?

Mr. ST. JOHN. I can't say that I am impressed with the necessity of the bill. I am not a chamber of commerce man. I am a country grain dealer.

Mr. GERNERD. All right; you are next to the man who produces it.

Mr. ST. JOHN. We believe there are abuses in the boards of trade and we believe they are the men that will eventually root them out. Perhaps you are going along the right direction. I do not believe that it will be of much benefit to the farmer.

Mr. GERNERD. We are all after information; we are all open-minded. What do you believe will help to stabilize the grain market in the country? That seems to be the burning question. What can we do to stabilize the farm products, particularly grain?

Mr. ST. JOHN. A quick peace with Germany and financial arrangements with the needy countries we can deal with would help very much.

Mr. TINCHER. What do you mean by a financial arrangement?

Mr. ST. JOHN. That some able financiers would lend the needy countries the money to buy our stuff.

In regard to the speculator—having been 35 years in the grain business, I take the privilege of advancing an opinion——

Mr. GERNERD. You do some speculating yourself?

Mr. ST. JOHN. Some. I believe the average speculator loses more than he gains. I believe it is true on the board of trade and chamber of commerce, and that is why I believe the speculator is a benefit to the producer as well as to the consumer. There is a margin there. The men come in and lose their money; a part of it goes to the producer and a part to the consumer.

It is a broad statement for a man to say that the producer and consumer are both benefited by the speculator, but I believe that, because I believe the speculator loses 55 per cent of the time, where he gains 45 per cent of the time.

Mr. TINCHER. Where did that start, anyway? Take you and Julius Barnes, for instance, about how much have you and Julius lost?

Mr. ST. JOHN. Well, I don't know. Julius, I guess, is rather successful. He was a product of one of the grain exchanges, and conducted about the only department that made a success for the Government.

Mr. TINCHER. Yes; he is successful in everything I know of, in a financial way.

Mr. ST. JOHN. He wasn't any disgrace to the grain trade, was he?

Mr. TINCHER. He is not one of the speculators that has lost 52 per cent; I have heard that he did not start in with any great amount of money. He is rated by Bradstreet's now at $3,000,000, and he has been in the grain business the same length of time I have.

Mr. ST. JOHN. The gentleman from St. Louis who was speaking yesterday, if I may be permitted to speak about that—one man spoke here about a man that speculated in grain and lost $80,000, and broke a bank.

Mr. TINCHER. I am satisfied that no farmer in my country got that. Who did get that?

Mr. ST. JOHN. Well, I think the farmer got his share of that. The man that sold this to the speculator was probably an illegitimate dealer in grain.

Mr. TINCHER. If you speculators lose so much—you live pretty well—what other line do you have that keeps you going?

Mr. ST. JOHN. I am trying to give you the facts.

Mr. TINCHER. You may be right. I have always had the impression that many people live out of the trade and make fortunes out of it between the producer and the consumer.

Mr. ST. JOHN. No; they do not. The men that give it attention have mighty hard work. It is a mighty close proposition.

Mr. GERNERD. That is not really the situation in Pennsylvania. Of course, we do not have these grain elevators at all in the sense that you do, but the fellows that buy our grain, our Pennsylvania people, maybe they have made lots of money. In my own district I suppose there are 10 or 12 fellows, and they have the telephone very convenient, and the prices are all the same all over the district. It is $1.72, $1.53, and it is the same price that the stock exchange has in Chicago, and they add the cost of transportation from Chicago east. And the farmer in Pennsylvania is not getting the benefit. He gets the difference between that and what it costs to transport it. There is something wrong somewhere. I am speaking of the man who has not the advantage of an elevator, like yourself. Most of the fellows who buy grain run a mill in connection with it.

Mr. TINCHER. What is the difference between a speculator and a lamb? Mr. Williams's man was a lamb.

Mr. CLARKE. A lamb is the one that loses, isn't it?

Mr. WILLIAMS. Mr. Wells spoke yesterday about competent and incompetent speculators, and that was the term I used, "an incompetent speculator," being one who had no expert knowledge of the business. Isn't it a fact that the great majority of the people who might be classed as incompetent speculators, they do nothing in the country but buying on the board of trade, or dealing on the board of trade, and as a rule don't they always buy, instead of sell?

Mr. ST. JOHN. As a rule, in my judgment.

Mr. WILLIAMS. Those are the folks that get sheared in the end?

Mr. ST. JOHN. Yes, they do.

Mr. WILLIAMS. Now, in order to get their money, isn't it necessary to depress the market so they will get their money, and in that way is not the producer injured? This depression that takes the money from the incompetent speculators, naturally always causes a depression of the market?

Mr. ST. JOHN. Well, every sale must be finished with a purchase and every purchase must be finished with a sale.

Mr. WILLAIMS. I know, but the competent speculator usually has the right end of the sale; he sells corn or wheat, and when the market goes down, of course, he has demonstrated that he was a competent speculator.

Mr. ST. JOHN. He may be competent to-day, and he may not be to-morrow. I give it as my honest opinion that the average of the speculation, 55 per cent of them lose as much as 45 per cent gain.

Mr. WILLIAMS. As far as I have been able to observe, the little fellows that dabble always buy.

Mr. ST. JOHN. Yes.

Mr. WILLIAMS. And they lose money because the market declines?

Mr. ST. JOHN. That is true.

The CHAIRMAN. Isn't it a fact that the lambs are influenced by the market reports, shortage of crops, and such reports as are sent out for the purpose of influencing buying or selling?

Mr. ST. JOHN. Yes; I think anyone that is interested in grain is more or less interested by what he sees in magazines and papers, etc.

The CHAIRMAN. He relies on those reports. Are those reports generally to be relied upon?

Mr. ST. JOHN. Yes; generally. We get regular reports written by the trade men and the chamber of commerce men, and we consider them very reliable.

The CHAIRMAN. They sometimes get out reports about the coal being exhausted and the crops failing, evidently for the purpose of influencing the prices.

Mr. ST. JOHN. That may be true; but our class of reports we consider reliable.

Mr. GERNERD. Who makes the reports? To whom could you trace responsibility for making these reports?

Mr. ST. JOHN. We exchange letters once a week with grain dealers in 10 States, including Texas, and the Texas man said in his last report that they had plenty of rice, hulled and unhulled—I do not know just what that means—and he said their corn was in the crib being eaten up by the weevil. Other correspondents have other things. He said the cotton, except the best grade, was almost unsalable. They were getting 5 to 7 cents for the lower grades, which is lower than the cost of ginning. I do not know anything about cotton, but we get other letters of the same kind.

Mr. GERNERD. Then you mean to tell me, in response to the chairman's question, that reports of that kind greatly influence the prices of wheat from time to time?

Mr. ST. JOHN. I am speaking of the reports we get. We follow all those reports. We know those men.

The CHAIRMAN. I have reference to the press reports.

Mr. GERNERD. He has reference to the general press reports.

Mr. ST. JOHN. The reports we get that we know about we take stock in.

The CHAIRMAN. The press reports throughout the country, are they generally reliable; the newspaper reports? It has been suggested here that those reports are instigated by the parties interested in the grain trade.

Mr. ST. JOHN. Yes; we think they are generally reliable; we think the information as a whole is correct.

Gentlemen, there are other witnesses here, and unless there are further questions I will defer to them.

The CHAIRMAN. To what extent do the people in the country generally speculate?

Mr. ST. JOHN. Among the grain men it is not general.

The CHAIRMAN. But among the people generally?

Mr. ST. JOHN. Farmers?

The CHAIRMAN. Yes; farmers and merchants, etc.

Mr. ST. JOHN. We have been invited by farmers to have sold, or to buy for them—generally buy—grain. We have never executed an order for a farmer, and generally we discourage their speculating.

The CHAIRMAN. You said it was to your advantage to have the private wires. Now, is it of advantage to the people in the country generally to have private wires? They come in closer contact with the commission men.

Mr. ST. JOHN. They probably pick up orders for future trading that they would not get if they did not have the wires there.

Mr. THOMPSON. Is it not a fact that a man in a wheat-producing country, if he thinks the price is going up, he generally will buy on that basis?

Mr. ST. JOHN. A farmer, if he deals, is likely to buy. Our farmers do not speculate in our territory.

The CHAIRMAN. The blackboard becomes very attractive to them, and they take a dip once in a while that they would not if they were a thousand miles away from it?

Mr. ST. JOHN. Yes; they pick up a deal occasionally that they would not if they did not have these warehouses in the smaller towns.

The CHAIRMAN. Are many farmers ruined financially in your town by reason of speculation?

Mr. ST. JOHN. A young fellow killed himself a while ago that loaded up on land two or three years ago. He had his life insured, and he shot himself——

The CHAIRMAN (interposing). Are there many losses?

Mr. ST. JOHN. The land values are declining 30 per cent. The man that has only an equity, it is hard on him.

The CHAIRMAN. I mean speculators in grain, in futures. I mean speculators in futures, commonly called bucket shops.

Mr. TINCHER. He said the farmers do not speculate that he knew of.

Mr. ST. JOHN. The farmers do not speculate that we know of.

The CHAIRMAN. I thought he said they did.

Mr. ST. JOHN. No.

The CHAIRMAN. Are there any further questions? If not, we are very much obliged to you, Mr. St. John.

STATEMENT OF MR. CHARLES KENNING, PRESIDENT MINNESOTA FARMERS' GRAIN DEALERS ASSOCIATION.

The CHAIRMAN. State your name and business.

Mr. KENNING. My name is Charles Kenning; I represent the Minnesota Farmers' Grain Dealers Association. I am president of the association and am and have been chairman of the legislative committee of that association for the last eight years.

Mr. TINCHER. What is that association?

Mr. KENNING. The Farmers' Grain Dealers Association. It is a State association, cooperative farmers' elevators, composed—we have a paid-up membership, I think, of one hundred and eighty-odd elevators at the present time.

The CHAIRMAN. Is that the same as the equity?

Mr. KENNING. No, sir. It is strictly cooperative.

Mr. JONES. Are you affiliated with any other State organizations besides your own State?

Mr. KENNING. No, sir; it is a State organization.

And I am also secretary of our local elevator at my home town.

This matter of futures has come up before the State legislature so much, and taken so much of my time in the last eight years, I am getting so I almost dream it. I understand it has been represented to you that the State of Minnesota passed an antifuture trading law in the last session. That is not true. They legalized future trading. I have a copy of the bill with me and will show you how it was gotten out. I appeared before the committee and found certain objections to the bill which made it absolutely impossible for our farmers' elevators to do any hedging, for several reasons. Some things were not brought out so far.

Our contract grades are one and two: our legal grades of wheat in my section and in a great many sections of the State of Minnesota it would not go better than three and four, and for that reason we could not deliver the product required if we were compelled to deliver the actual wheat that we sold.

The bill as first framed in both the last sessions required the actual delivery of the product, and by not settling up and paying the difference at any time between the deliveries it actually compelled the delivery. This was an impossible thing for the farmers' elevators, and others the same. So I asked that that part be stricken out and the bill be so amended that they could sell futures or buy futures and then ship in their grain again and buy up their furures in that way at any time, so that they would not be able to do that. When this bill first came up I know that I, myself, and the farmers, were little familiar with the future trading. For the purpose of enlightening them and knowing just what they did want, I, at our annual meeting, when the legislature was in session considering these bills—the first session six years ago—I invited what I supposed was one of the best posted men on future trading in the chamber of commerce, to come before our meeting and explain to our delegation, before we voted on this question, just exactly what future trading was. After he had gone thoroughly over the matter, satisfactorily to the whole delegation, the committee on resolutions was instructed to draw up resolutions covering our ideas. The resolutions were brought before the committee as a whole, read and discussed and voted on, and then referred to the legislature—a copy of the resolutions was sent to the legislature. The result was that the bill was killed.

I was then criticized for taking a member of the chamber of commerce to explain to our farmer members. You must understand our full delegation is composed of farmers entirely—members of the board of directors of the different elevators.

I then took another tack. I invited the sponsors of these bills, both the house and senate, to come before our body and discuss the bill. Two years ago last winter Senator Peterson, who introduced the matter in the senate, came, and after he had thoroughly discussed and explained it again it was referred to the committee and voted upon, and a resolution was handed in to the members of the legislature, and the bill was again killed.

This year it was again claimed that only one man having discussed it, there was not a fair show. So this year I saw to it that there were

more of them. I had a number from the senate, and one from the house, and gave them all the time they wanted. One man from the house took an hour and 45 minutes, and a senator took 40 minutes in favor of the bill, and a member of the house took the opposite side and took 20 minutes. When he left the house he said, "If we put in an amendment as you suggested, will you support the bill?" I said, "Yes; go ahead." After the matter was again brought before our body, and a resolution was passed asking the legislature to do nothing to disturb the present market system until something better was devised. After further consideration, I told them of what had been suggested, and we agreed if they would amend as we requested, enabling us to handle futures in a proper way, we would raise no objection. I so notified the chairman of the committee, and the bill was passed in that way, although I do not deem that the bill is a proper and a safe bill for the speculator, or even an operator, but it puts it in so much better shape. But we could not handle it any other way, not having the grade of grain required. We can not possibly handle the product, but we have to hedge again.

Mr. GERNERD. Supposing you were in position to deliver the grain according to contract, what would your occasion have been to——

Mr. KENNING (interposing). We would have wanted an open hedging system just the same.

Mr. GERNERD. Then the question whether you could have delivered that kind of grain had nothing to do with the hedging system?

Mr. KENNING. I say, we wanted that anyway, because we have these peculiar conditions coming up every little while, and it would be an uncertain way of doing business.

Now, there was a great deal said—the whole weight is put on wheat—mostly on that.

Just to illustrate in what position we are when we can not hedge—on January 7, 1920, we shipped a carload of wheat to Minneapolis. On January 8 we shipped two carloads. They were not delivered on the inspection track until the 20th and the 21st, being delayed in transit. That caused us a loss, by being delayed in transit, of some $420. The reason I remember that, I have been trying a year to collect the difference from the railroad company, and the last I got from them they refused, saying there were labor troubles, and I have now ordered our attorney at Chicago to begin action against them.

Had we hedged at that time, we could have been protected against the drop in price, which was 30 or 35 cents a bushel.

The CHAIRMAN. On the other hand, if the price had gone up you would have been the gainer?

Mr. KENNING. Yes; that us very true, but it is a very unsafe proposition for a local elevator to undertake.

The way we handle our elevator, and we handle it very successfully that way when we can hedge, we sell from day to day, and sometimes a little ahead. For instance, we have a little shaky market, it is liable to go down on us, and we wire in to sell a couple of thousand bushels, what we expect to take in that day.

The CHAIRMAN. What do you sell; to arrive on that day?

Mr. KENNING. To arrive, generally, but if we can not do that, we sell on futures.

The CHAIRMAN. A good share you sell to arrive?

Mr. KENNING. It all depends on the transportation.

The CHAIRMAN. Whenever cars are available, you sell to arrive?

Mr. KENNING. Yes; but a common thing for us, we have to sell the other way. It is not uncommon for us to have our elevator blocked to the top for weeks at a time; in the past years we have carried as much as eighty or ninety thousand dollars of grain in our elevator. Had we not been able to protect it some way we would not be in existence.

Mr. TINCHER. Were you here when Mr. Potter and the other gentlemen from your State testified?

Mr. KENNING. I was not here. I would have been glad to have been here. I would be glad to get a little light on that work.

Mr. TINCHER. What do you mean by "light on that work"? They are high-class gentlemen.

Mr. KENNING. As I understand, the farmers in Minnesota voted in favor of that bill. That is, to abolish hedging. No farmer—I have had a great deal to do with it in the last 15 years; a great deal to do with organizing cooperative companies, and have been invited to speak at public meetings, and I have not come across a single instance where the farmer, if he was properly informed on the legitimate hedging, but what he was in favor of it. But before the meeting of the legislature, meetings were called, even in my own village, and I had no notice of it until after it was over, asking farmers to meet there and vote on this proposition. There was no explanation, except to say that it was a gambling act, and they did get quite a vote from the farmers.

Mr. TINCHER. Mr. Potter claimed here that he was the president of a farmers' bureau and represented 60,000 farmers, in his testimony before this committee.

Mr. KENNING. That may all be true.

Mr. TINCHER. I just wanted you to know that.

Mr. KENNING. That may all be true; probably that many members have joined the bureau. I have no doubt about that. But, nevertheless, I know to my certain knowledge that a lot of these people that belong to that farm bureau are in favor of hedging.

Mr. WILLIAMS. Senator Potter also said that he was president of a cooperative elevator in his State; organized one of the first.

Mr. KENNING. I do not know anything about that. I have known Senator Potter for some 30 years. I do not know what organizations he belongs to. I know he was a senator some years ago; an ex-senator now. He has not been senator for a number of years.

Mr. GERNERD. You then say, from your years of experience in handling grain for the farmer, that the system as it now prevails is absolutely all right?

Mr. KENNING. It has played safe for us to this extent: We started in that elevator, and all the stock that I could possibly get people to put in there amounts to about $4,700. I had to put in some of my own personal money, and some of my children put in their bank deposits in order to pay for the first contract of the first elevator, because I could not induce the farmers—lots of them that are now making quite a holler would not even put in $10.

Mr. TINCHER. Potter said there was no question up there, no opposition to passing an antigambling bill; they were all unanimous about that; that he took the bill to the farmers.

Mr. KENNING. He got that kind of a bill that I have explained to you. It was not explained. A few of them came to me, that are good members of the bureau, and said that they asked for an explanation and could not get it. In fact, even members of the legislature came to me after appearing before the committee and said that they were surprised to hear how futures were handled; they supposed the actual wheat was delivered, and the man had to put up a lot of money, and all that.

Mr. GERNERD. You are in favor of hedging, but how about the speculators in futures; they are not those that are hedging their wheat.

Mr. KENNING. I do not know how we can hedge our wheat without somebody there that is willing to buy our futures, and he undoubtedly is a man that is speculating. I have had quite a little experience in handling wheat before we had any future trading.

Mr. GERNERD. Before you had any future trading?

Mr. KENNING. No; before they had any future trading in the United States, as far as I know. It may be a surprise to some of you people to hear that I delivered the first load of wheat that I had anything to do with in 1862 in Minneapolis, although I was not in the farming business at that time. We were contractors, but we hauled our lumber from Minneapolis during the winter months. There were flat houses throughout the country, and they could not ship wheat, only by boat. There were no railroads, and we would be glad to take a load of wheat down there 40 miles at 5 cents a bushel to pay part of our expenses on the lumber trip. And I have been fortunate enough to stand there waiting as much as two or three days before I could find a buyer for my wheat.

Mr. JONES. Do you have in Minnesota what you call an open market bill, a law, that requires boards of exchange and markets to permit the cooperative elevators——

Mr. KENNING (interposing). Yes, sir; we have now, and I have never known, since I have been familiar with the chamber of commerce there, I have never known a day when a farmer or any other organization could not come in there and buy a membership and do business, as long as they complied with the rules. I have had the opportunity, and there has been——

Mr. JONES (interposing). Why was the law passed then; what was the purpose of the bill?

Mr. KENNING. It seemed to be more of an agitation than anything else. The only objection they seemed to have to that rule is this: They wanted the privilege to prorate back to their customers. The rules of the chambers of commerce were that they had to charge a fixed minimum commission to handle the products; they could charge as much more as they wanted to, but each commission man had to charge a minimum for handling the products of anybody else. What they wanted was to charge what they had a mind to, and prorate back to the customers.

The peculiar part of that was, there was not in all this clamoring for this prorating, there was not a cooperative elevator. They were not cooperating at home; they were only paying a prorate back to the stockholders. I know that to be a fact. Our elevator there at my home is practically the only strictly cooperative elevator that I know of that has made it strictly cooperative. As I say, we have

only a capital stock of $4,700. We have a cash valuation of some $30,000. We simply pay interest on the $4,700; a nominal interest, and then we pay back prorata, back to the customers, whether he is a stockholder or not, what comes from his deliveries.

Mr. JONES. But you do not prorate back the commission of the buyer and seller?

Mr. KENNING. We prorate back whatever the earnings are of that elevator to the patrons of that elevator.

Mr. TINCHER. Are you a member of the Farmers' Bureau?

Mr. KENNING. I am not; no, sir.

Mr. TINCHER. Or of the Equity?

Mr. KENNING. No, sir; I am not.

Mr. TINCHER. Or the Farmers' Union?

Mr. KENNING. No, sir.

Mr. TINCHER. Are you a member of the Grand Army of the Republic?

Mr. KENNING. No; I am not; although I served Minnesota on a provision train for three weeks. That is as far as I got during the time of the war.

Mr. THOMPSON. What do you mean in your country by a line elevator?

Mr. KENNING. A line elevator is one that is run by a company that has more than one elevator in different parts of the State.

Mr. GERNERD. That is, you mean that have a group of elevators in different parts of the State?

Mr. KENNING. Yes, sir.

Mr. GERNERD. And line operators?

Mr. KENNING. Yes, sir.

Mr. THOMPSON. Mr. Potter says that he is a member of a farmers' elevator and that they were never financed by a commission company; they were always financed by the local bank, and never sold a bushel of futures, and made a success of it in competition with a real active mill that was bucking them, and three other line elevators, and are still going there.

Mr. KENNING. That is true. We stood between seven line elevators; three of them have burned down, and four of them are still in existence, and yet we handle over 70 per cent of the crops.

Mr. GERNERD. You represent what?

Mr. KENNING. The farmers' elevator locally.

Mr. GERNERD. You are not connected with the Equity?

Mr. KENNING. No, sir.

Mr. GERNERD. Do you affiliate with the Farmers' Union Elevator, or the Equity, or are their methods similar to yours?

Mr. KENNING. Our elevators are composed of the farmers' elevators in the State. Our State association is composed of them.

Mr. GERNERD. As I understand it, these Equity elevators all have the same objects and ends, don't they?

Mr. KENNING. The Equity, properly speaking, might be called a line elevator. It is a corporation of farmers that have organized, and they have bought and built a number of elevators in Minnesota, and several in North Dakota.

Mr. GERNERD. Is not that a species of cooperative marketing that they practice?

Mr. KENNING. It is cooperative so far as the stockholders are concerned. They only pay prorata dividend, or interest to their stockholders. They do not pay a patrons' interest.

Mr. SINCLAIR. Don't they pay a dividend to the patrons on the number of bushels they bring in?

Mr. KENNING. No; they do not.

Mr. SINCLAIR. Well, I know of several elevators that do; they pay a dividend—say a fixed dividend on the capital stock, and then all profits above that fixed dividend are prorated among the patrons according to the number of bushels they have dumped into the elevator, regardless of whether they are members of the elevator or not.

Mr. KENNING. The vice president of that elevator, Mr. Mangus Johnson, told me last January they did not. The way it came up, he told me, "Charlie, we are doing well; we have divided $40,000 amongst our elevators." Eight elevators, equals $5,000 apiece. "We have paid a better price at our elevators than you have. We have divided year before last over $4,000, and last year over $7,000, besides interest on the stock." He told me at that time they were only paying pro rata to the stockholders. They had been talking some of paying 50 per cent of what they made to the stockholders, and 50 per cent to the patrons. They may have adopted that plan.

Mr. SINCLAIR. I know of two elevators, I know they are, and all Equity elevators do this thing.

Mr. KENNING. Yes.

Mr. THOMPSON. You are helping the farmers of Minnesota, I understand?

Mr. KENNING. Yes.

Mr. THOMPSON. Here was Mr. Potter the other day and testified before this committee and said this: "Now, gentlemen, the farmers of the Northwest are not satisfied with present marketing conditions, and that is one thing that has practically driven us toward radicalism."

Can you explain that statement?

Mr. KENNING. I can not, except this: That same group of agitators some years ago did the same thing in regard to grades. I at that time finally sided in and went in with them, but I said, "Boys, you are going to get something worse than you have bargained for." And the result was these Federal grades. And this year they got together again. I was in the gathering, one of the delegates, and they condemned the Federal grades to a finish. I appeared before the Secretary of Agriculture twice trying to get it back to the Minnesota grades. And Senator Potter and several others got up and said these grades were only established to please the chamber of commerce and the millers, and so on. I waited until they all got through, and I got up and said, "Gentlemen, let us be honest for once, anyhow." I said, "Senator Cassius, you hollered for Federal grades. And, Mr. Owens, you hollered for these grades. And, Col. Webster, you tried to holler louder than I did, and we got what we deserved, and let us admit that we did not know what we deserved." I said, "So far as that is concerned, I will go with you and try to get the Minnesota grades, but I do not believe we will get much out of it."

And I will say here, so far as the grades are concerned, it is too technical to handle for the country elevator. Otherwise, the system is fair. I do not care whether the farmer likes it or not. I am a farmer; I live with my family on the farm, and get my living out of the farm.

Mr. JONES. Would you satisfy a curiosity by answering a question? You said you delivered a load of grain in Minneapolis in 1862; what year were you born?

Mr. KENNING. 1850.

Mr. JONES. In Minnesota?

Mr. KENNING. No; across the water. I landed in Minnesota in 1858; came to Canada in 1853.

Mr. WILLIAMS. In Senator Potter's statement, in discussing the legislation you had in Minnesota this year, he said, as I understood him, that the only opposition to the legislation was that it was a national question, and the Legislature of Minnesota should not have taken the stand; that it was a national question, and that was the only opposition. Is that your position?

Mr. KENNING. Well, if it is not too much trouble to you, I will read you the original bill and how they amended it, and it shows what the difference was. They simply turned it around and changed it altogether. I have both copies here that show the action of the legislature. I did not think of bringing the letters along that I had from the chairman of that committee in regard to this matter.

Mr. WILLIAMS. What I referred to was this statement, that everybody conceded that there should be legislation, but thought it should be National and not State, and that was the only opposition raised to that legislation.

Mr. KENNING. If that was a fact, would the legislature have amended their own bill and changed it to legalize it? They would simply have dropped it and let it alone. That would be my way of doing it if I was a member of the legislature. But the mere fact that they amended the bill and on my recommendation passed it that way shows that——

Mr. TINCHER (interposing). Do you say they passed it the way you recommended it?

Mr. KENNING. Yes, sir.

Mr. TINCHER. Have you got a copy of that bill?

Mr. KENNING. I have a copy of both here.

Mr. TINCHER. Let me see it. I want to see what kind of a bill you recommended.

Mr. KENNING. Now, there is another point I want to go on a little, and that is the matter of fluctuation. Our attention is called entirely to the fluctuation of grain products, and we say it is caused by this speculative market. Have you ever stopped to realize and consider that the fluctuation is and has been greater in other products than it is in wheat?

Mr. GERNERD. What products do you refer to?

Mr. KENNING. The products of stock, and potatoes, and other things.

For illustration, about a week ago Monday I shipped a mixed car of stock, and my neighbor helped me to haul it in. I got 10¼ for my hogs. He shipped his on Thursday and got 9, a drop of a cent and a quarter. On that Monday I did not get mine all in, and on the fol-

lowing Monday I hauled again from the same lot, the same hogs, and they were up again to 10. A few days after that it went back the other way again.

Now, we will take potatoes, two years ago—a year ago last fall, potatoes seemed to be plenty, except in our territory, and potatoes were being shipped in there and sold for $1.75. I wanted our elevator to handle them, because we could handle them and sell them for $1.50 to $1.75. Others took hold of it and sold them that way. I could not get them to do it until I took hold of it and got them for $1.75. My neighbors wanted some, and I sold myself short, and I then wrote to the party to get prices, but it froze up, and he could not ship them. I wrote him and asked him if I sent him the money whether he would keep so many bushels until spring. He said I did not need to send the money, he would keep them at the price at that time. The next spring he shipped them in, and my potatoes cost me the next spring $1.75 and my neighbors paid $6. They planted them, and last fall they could not get 70 cents for them. There is no speculation there.

Mr. GERNERD. Do you realize how many potatoes they shipped into this country from abroad?

Mr. KENNING. And corn the same. We begged a man to sell us his corn at $1.80. He would not, but held it, and he has been trying to get 40 cents for it now, and we do not want it.

We have oats stored in our elevators, 5,000 or 6,000 bushels and needed it, and begged them to sell it to us at $1.05, and they would not. There is another proposition we run up against. Farmers beg us to store for them, and we have sometimes 40,000 bushels stored. We have to ship out, and if we can not hedge we are up against it. I have ordered the man at the elevator now to clean up by the 1st of May.

Mr. GERNERD. Let me ask you something: What is the minimum price that a farmer in your section can grow wheat for?

Mr. KENNING. That is a hard problem to solve. I may raise it for a dollar, and my neighbor not raise it for $2.

Mr. SINCLAIR. How do you account for that difference?

Mr. KENNING. I have a large farm, fully equipped, and have my own help.

Mr. GERNERD. Then you do not figure that your help is earning anything?

Mr. KENNING. I can do it; he would go bankrupt, and I would not.

Mr. GERNERD. When you say you have your own help, you mean your own family, and you do not figure that help as costing you anything?

Mr. KENNING. No.

Mr. GERNERD. That is not business.

Mr. KENNING. No.

Mr. TINCHER. Now, on this grain futures proposition——

Mr. KENNING (interposing). There is one section, one paragraph, one and three, is the only ones we asked for any changes, where the changes were made.

Mr. TINCHER. I want to ask you a question: Are you for my bill?

Mr. KENNING. I have read your bill.

Mr. TINCHER. You have read it, but do you think we ought to pass it as a law?

Mr. KENNING. I think there is lots of things in there that ought not to be in there.

Mr. TINCHER. A pretty radical bill?

Mr. KENNING. Yes; that is what I think.

Mr. TINCHER. Now, this bill that you had the legislature up there pass, I want to read section 1. [Reading:]

Every contract of sale for future delivery of wheat, grain, or other farm products wherein the actual delivery of the commodity sold is not, in good faith, contemplated or intended by the contracting parties, is hereby declared to be a gambling contract; is hereby made illegal, and the parties thereto made liable to the penalties hereinafter provided.

And every such contract is hereby declared to be prima facie a gambling contract when to the knowledge of the buyer the seller does not have in his possession, actually or potentially, the commodity sold.

That is all of section 1.

Mr. KENNING. Is that the one passed?

Mr. TINCHER. Yes.

Mr. KENNING. Then read section 3 of that.

Mr. TINCHER. I am going to read it. What did you do to them up there; did you fool them? Were you for section 1?

Mr. KENNING. I was not, and I do not say so in section 3, that I know of.

Mr. TINCHER. Now, in section 3, I think, perhaps you have knocked the bill in the head. Section 3 reads:

This act shall not be construed so as to prohibit any producer of or dealer in grain or any grain product or other farm product from buying or selling any such grain or product in good faith for future delivery on any grain exchange, according to the customary method of making such contracts on such grain exchange; and if either party to a contract of sale for future delivery enters into such contract in good faith as a protection against loss, on any product herein mentioned, such contract shall be lawful, and may be carried out by delivery of the product sold at the time specified in such contract, or may be settled by novation or by payment of the difference between the contract price and the market price of the product at or before the time of delivery specified in such contract.

Mr. KENNING. That is right.

Mr. TINCHER. What was the idea of having section 1?

Mr. KENNING. Well, I was dealing with all farmers.

Mr. TINCHER. Now, as a matter of fact, you thought you wanted to stop gambling, and all the farmers up there wanted to stop gambling, and then you concluded that you did not want to prevent legitimate hedging, so instead of drawing a bill that does not intend to prevent hedging you denounce gambling, and then afterwards insert section 3. I do not denounce them in loud accents as gamblers and thieves, but you denounce them all as gamblers first, and then insert this other section. Do you think we ought to pass that as a national law instead of this bill?

Mr. KENNING. There is a lot in your bill that I construe the same as section 1 there.

Mr. TINCHER. Have you a copy of my bill there? I want you to take a copy of my bill and call attention to the part that has the same tendency as section 1 here.

Mr. KENNING. It has the same tendency, but it is a question of construction, and the courts may construe it differently.

Mr. TINCHER. I want you to call attention to that. If I call anybody a gambler and a thief, I want to know it.

Mr. GERNERD. While the gentleman is finding that for Mr. Tincher, I want to ask the gentleman a question. What percentage of the

sales made on the market, if you know, are purely speculative and do not intend to buy upon delivery?

Mr. EWE. I do not quite understand the question.

Mr. GERNERD. What percentage of the sales are really speculative, with no intention of buying for delivery?

Mr. EWE. All transactions on grain exchanges delivery is contemplated.

Mr. GERNERD. Figuratively speaking, that is true.

Mr. EWE. Actually.

Mr. VOIGT. The question you want to put is, in how many cases where a contract is made, is there actual delivery?

Mr. EWE. You understand, of course, there is a lot of grain hedged in terminal markets that does not go to these markets. But it is an actual, bona fide market just the same.

Mr. GERNERD. Without speaking of the Quaker Oats people, and people that really need grain in the future, what percentage of the real legitimate buyers really buy for delivery in the future?

Mr. EWE. That is a hard question to answer.

Mr. TINCHER. Section 3 of this bill that you are so proud of, would contemplate that one side or the other of every option trade—either the man would contemplate delivering the grain, or if the man that sold it did not contemplate delivering it, the man that bought it would contemplate receiving it. Are you surprised, with the States passing laws like that, that the grain trade would agree on some reasonable national legislation?

Mr. KENNING. I would construe your section 4 almost identical with section 1 there; they want to be a free trader, without paying taxes, and would have to be in actual physical possession of the property.

Mr. TINCHER. Do I declare it a gambling contract and illegal, and the parties liable to penalties?

Mr. KENNING. You would penalize people to the extent of 20 cents a bushel; I do not know what for, if it is a legitimate trade.

Mr. TINCHER. Without making a record of the transaction.

Mr. KENNING. Yes.

Mr. TINCHER. Do you understand section 3 to mean this: In order for two men to have an option deal and that option deal to be legal and not amenable to section 1, and make it a gambling contract, one of those parties to the contract must contemplate the actual delivery of the grain, and if the party does not contemplate the actual delivery of the grain, the other must contemplate the actual receiving of the grain?

Mr. KENNING. Well, it would not work in our country, because you can not deliver it.

Mr. TINCHER. But here is your bill; you put it over up there. You fixed it up so the farmers could have what they wanted. I am talking of section 3 that you are proud of. Section 3 provides that it takes them out of this gambling class if one of the parties is acting in good faith; one contemplating receiving, or one contemplating delivering?

Mr. KENNING. Yes.

Mr. TINCHER. Now, if you believe in the hedge——

Mr. KENNING (interposing). Yes; I believe in the hedge.

Mr. TINCHER. If you believe in it, why put that in; why not permit the hedge to go on?

Mr. KENNING. I could not get it passed in that way. I had to do the best I could.

Mr. TINCHER. Were you a member of the legislature?

Mr. KENNING. I was not; at no time.

Mr. TINCHER. What were you; in what capacity were you acting?

Mr. KENNING. I represented our association, as chairman of the legislative committee, as I believe Congressman Clague has known me for a number of years in that capacity. They have intrusted their work to me and put me there year after year for years, and they are all farmers.

Mr. TINCHER. You say there was nothing said to these farmers about this being a national question?

Mr. KENNING. Not anything against it.

Mr. TINCHER. Mr. Potter, who was a member of the legislature, said it was a national question.

Mr. KENNING. Mr. Potter was not a member of the legislature at the time that was up.

Mr. TINCHER. Another man who was here was; Mr. Bendixen.

Mr. KENNING. He was a member of the committee and recommended that bill for passage.

Mr. TINCHER. He agreed with Mr. Potter that the principal fight on the legislation was that it should be a national proposition.

Mr. Chairman, I offer as a part of the examination of this distinguished gentleman a copy of this bill. I want it printed as a part of these hearings, as absolute proof that there should be national legislation on this subject.

The CHAIRMAN. Without objection it will be so ordered.

(The bill in question is as follows:)

[State of Minnesota, forty-second session, H. F. No. 23. Introduced by Messrs. Gerlich, Wilkinson, Wicker, Greene, T. J., Norton, Rako, Neuman, Nitchcock, Moen, and Nordgren. Jan. 5, 1921, referred to committee on markets and marketing; reported back Feb. 26, 1921.]

A BILL For an act defining gambling contracts as applied to sales of wheat, grain, and other farm products, declaring the same to be illegal, prohibiting chambers of commerce, boards of trade, and other similar organizations from making and enforcing rules designed to enforce the carrying out of such gambling contracts, and prescribing penalties for the violation thereof.

Be it enacted by the Legislature of the State of Minnesota:

SECTION 1. Every contract of sale for future delivery of wheat, grain, or other farm products wherein the actual delivery of the commodity sold is not, in good faith, contemplated or intended by the contracting parties, is hereby declared to be a gambling contract, is hereby made illegal, and the parties thereto made liable to the penalties hereinafter provided.

And every such contract is hereby declared to be prima facie a gambling contract when to the knowledge of the buyer the seller does not have in his possession, actually or potentially, the commodity sold.

SEC. 2. Any person, whether acting individually or as a member of a firm or as an officer or employee of any corporation, who shall be found guilty of being a party, directly or indirectly, to any gambling contract, as defined in section 1 hereof, shall be deemed guilty of a gross misdemeanor and shall upon conviction thereof be punished by a fine of not less than $500 nor more than $1,000 and be imprisoned in the county jail uutil such fine is paid, not exceeding one year; and any such person who shall be found guilty of a second or further offense under this statute, in addition to the penalty above prescribed shall upon conviction be imprisoned in the county jail for a period of not less than 30 days nor more than 90 days and, if a corporation, shall be liable to forfeiture of its charter.

SEC. 3. This act shall not be construed so as to prohibit any producer of or dealer in grain or any grain product or other farm product from buying or selling any such grain or product in good faith for future delivery on any grain exchange, according to the customary method of making such contracts on such grain exchange; and if either party to a contract of sale for future delivery enters into such contract in good faith as a protection against loss on any product herein mentioned, such contract shall be

lawful and may be carried out by delivery of the product sold at the time specified in such contract or may be settled by novation or by payment of the difference between the contract price and the market price of the product at or before the time of delivery specified in such contract.

SEC. 4. It shall be unlawful for any chamber of commerce, board of trade, or other association of persons conducting, maintaining, or carrying on an exchange or place of business where wheat, other grains or farm products are bought or sold, to make, promulgate, or enforce any rule or regulation which in any way penalizes or imposes a disability on any member of such chamber of commerce, board of trade, or other exchange, or person authorized or permitted to trade thereat by reason of the failure or refusal of such member or person to carry out or observe the terms and provisions of any such gambling contract. Any chamber of commerce, board of trade, or other association conducting or maintaining such an exchange, and every officer, agent, or employee of any such chamber of commerce, board of trade, or other association who shall violate or knowingly aid or assist in the violation of the provisions of this section shall be guilty of a gross misdemeanor.

SEC. 5. This act shall take effect and be in force from and after August 1, 1921.

Mr. JONES. Do you think the Tincher bill would be better by inserting section 3 in it? Do you think it would cure the evil you suggest?

Mr. KENNING. No; I do not. I think Mr. Tincher's bill should be carefully gone over, and lots of kinks in there should be taken out. And the bill should be so framed that any man trying to do an honest business to protect himself against loss, as we have to do in handling grain at these country points—it should be framed in a way that he can do it.

Mr. JONES. Would you protect the man that shoulders the risk—the speculator?

Mr. KENNING. Well, I don't know as we should induce the speculator to speculate unless we are willing to give him some protection. I hold there is a necessity for the speculator in the market. By taking the speculator out of the market you cut out one of the principal buyers.

Mr. JONES. By that you mean his activities should be unlimited?

Mr. KENNING. No; I think I am willing to say that they should be curtailed so they would not be dangerous to the public.

Mr. JONES. In what way would you limit them?

Mr. KENNING. I have not devised any plan. I have not even given that any thought, because I believed the men, by calling their attention to these things, would see the necessity for it—making this advisable.

Mr. JONES. Do you think there should be a national law?

Mr. KENNING. I think if there is any law it should be a national law.

Mr. JONES. Do you think there should be a national law?

Mr. KENNING. Yes; I am willing to say that, but I think it should be broad enough to permit legitimate business.

Mr. GERNERD. You say to this committee you think there should be a national law. Now, what illegal practices occur to you in all your experience that this committee ought to correct?

Mr. KENNING. Well, so far in my experience I have discovered nothing.

Mr. GERNERD. Then we need no law?

Mr. KENNING. I say, in all the dealings we have had in the past 16 years that I have been the manager of that elevator, I have never seen an occasion yet that we had any trouble really with commission men or any particular traders, at no time during that time. Before we had this elevator I shipped my grain products direct to commission men.

Mr. CLARKE. What injurious tendencies then are you aiming your State law at?

Mr. KENNING. I don't know as I ought to say it, but I guess I might as well: Some members of the legislature, as I am talking to you now, said, "We promised the farmer we are going to do something for him, and we dare not go home unless we do something for them." If you want the facts, I am going to give them to you just as they came to me. That is the argument, as they gave it to me. I tried to show them the things we needed in other lines. I will go further and say that one was kind enough to have a friend write to me and ask for a suggestion, if we could not amend some of these things before it was too late. It was just before the legislature adjourned, because they had not done anything really for the farmer.

Mr. CLARKE. Don't you think, amongst the farmers themselves, if they had a little better leadership—people more firm in their convictions——

Mr. KENNING (interposing). I do not believe it; I know it. The curse of the farmers is the agitators that do not know what they are talking about, and have some object in view. I have been connected with this business for 40 years and I have never run for office; I have been asked to, but I have refused. If I can have my farm and a little lay off during the winter months and can go and interview the legislature, that is interesting to me. And so far as making money is concerned, I think you are all agreed with me that it is poor paying business; that politics is a poor investment. Mr. Clague has seen me there every winter since he has been connected with it.

Mr. CLAGUE. You do not consider Mr. Potter and Mr. Bendixen agitators?

Mr. KENNING. Just as you take it.

Mr. CLAGUE. They are pretty successful farmers?

Mr. KENNING. Yes, sir.

Mr. CLAGUE. Both in stock and grain raising?

Mr. KENNING. Yes; and very successful too in stirring up the farmers.

Mr. TINCHER. What did they try to get you to run for; Senator or governor?

Mr. KENNING. They suggested at one time that I run for President.

Mr. CLARKE. Mr. Chairman, we are not getting anywhere; let us go on.

The CHAIRMAN. I understood you to say a number of men hold memberships in the exchanges?

Mr. KENNING. Yes; there are farmers' organizations in the chambers of commerce, doing business, and have done business there, I think, four years—they have been doing business there as a commission firm handling products, and every officer of that is a farmer.

The CHAIRMAN. We have been led to believe that the applications have been rejected.

Mr. KENNING. They have been rejected?

The CHAIRMAN. It has been so alleged or represented here.

Mr. KENNING. Well, I have had the opportunity of going in there any time I wanted to buy a membership, on showing that I was financially and otherwise all right, and never was refused it.

Mr. CLAGUE. You do not mean to say any cooperative society can join the Minneapolis Chamber of Commerce?

Mr. KENNING. Whether they are cooperative or not, the only thing they have to do—this farmers' organization is composed at the present time of 10, I think, 10 cooperative elevators in the southern part of Minnesota, and Mr. Galt, or some such name, is president, down near Slayton, and they have been doing business, and the way they have been doing business, if there is any earnings, each cooperative elevator has a membership in this grain commission firm, and when they have any earnings it is turned back to each elevator, and there is nothing to prohibit that elevator from afterwards prorating it to their members, but the commission firm, as a firm, could not do that; that is against the rules of the chamber of commerce.

The CHAIRMAN. Is the organization a member of the exchange?

Mr. KENNING. The organization is a member of the exchange.

Mr. CLAGUE. I would like to ask Mr. Wells: Mr. Wells, what are the rules under which they join?

Mr. WELLS. Any cooperative institution can join, if they are willing to join on the same basis as any others. I called your attention to the fact that two of the biggest cooperative elevators in the world do business in exactly that way. They have incorporated their sales agencies and they handle more grain than any other grain company in Canada, and they are very successful.

The CHAIRMAN. What have you to say as to whether they are members of the exchange?

Mr. WELLS. There are only two that I know of—the Farmers' Elevator Commission Co. and the Farmers' Elevator Co. The Farmers' Elevator Commission Co. is made up of farmers' elevators. It is a corporation.

The CHAIRMAN. Made up of farmers?

Mr. WELLS. Yes; both of them.

The CHAIRMAN. Why were they permitted to join?

Mr. WELLS. Because they were willing to incorporate and distribute the earnings as required by the rules.

The CHAIRMAN. Then the only difference is——

Mr. WELLS (interposing). The distribution to the sales agencies. I might say, the Cooperative Elevator Co. is a member of the Minneapolis Chamber of Commerce.

The CHAIRMAN. Most of the cooperative organizations in our section of the country are incorporated just exactly as any other organization.

Mr. WELLS. Yes.

The CHAIRMAN. You object to distributing the profits among the patrons?

Mr. WELLS. Yes, because that is equivalent to cutting off competition, and in a short time the stability of the commission merchant is gone.

The CHAIRMAN. We are to understand that is the only question involved?

Mr. WELLS. That is the only question involved.

The CHAIRMAN. Is that all, we are very much obliged to you, Mr. Kenning.

Shall we continue further; it is getting rather late?

Mr. WELLS. We can finish to-morrow morning, Mr. Chairman.

The CHAIRMAN. Without objection the committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 5.45 o'clock p. m., the committee adjourned to meet to-morrow, Friday, April 29, at 10 o'clock a. m.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Friday, April 29, 1921.

The committee met at 10 o'clock a. m., Hon. Gilbert N. Haugen (chairman) presiding.

There were present: Mr. Haugen, Mr. Purnell, Mr. Voigt, Mr. McLaughlin of Nebraska, Mr. Riddick, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Gernerd, Mr. Clague, Mr. Clarke, Mr. Aswell, Mr. Kincheloe, Mr. Jones, and Mr. Ten Eyck.

The CHAIRMAN. Mr. Wells, who do you want to put on next?

Mr. WELLS. Mr. Chairman, I would like to ask you to listen for a few moments to Mr. Derr, of Mitchell, S. Dak.

STATEMENT OF MR. C. W. DERR, OF MITCHELL, S. DAK.

Mr. DERR. Mr. Chairman, and gentlemen of the committee, I do not know that I can enlighten this committee on anything in particular, but if there is anything you would like to ask me about in reference to what you have in mind, if I can answer, I will endeavor to do so. I will say that I am a country dealer.

Mr. CLARKE. Whom do you represent?

Mr. DERR. Myself. I have six elevators in South Dakota.

Mr. ASWELL. What do you think about this bill?

Mr. DERR. Well, as it has been interpreted here by some of them, perhaps it is all right. If it is limited to the dealers mentioned in the bill, as far as future dealing is concerned, I do not think it is broad enough. There is no question but what we have to have a certain amount of speculation in the future dealing in order to take care of our deals from time to time. To illustrate, I have known as high as 1,800 cars of wheat to be in Minneapolis on one day from the northwest district. That would indicate that a day or two previous to that, that perhaps two and a half millions of bushels of wheat had been hedged in that market or in some other market. Unless the mills or the storage elevators themselves had sufficient business to warrant the purchasing of that amount of hedges, it might interfere—of course, it never has been tried out—but my idea would be there would not be sufficient business on the exchange that day to handle that amount of wheat.

Mr. TINCHER. You are afraid the words "dealing in" might not be broad enough, as I understand.

Mr. DERR. I am not a lawyer——

Mr. CLARKE (interposing). I thought you made that more inclusive.

Mr. TINCHER. I was just going to ask him if he thought adding the word "feeding" after the word "growing" and after the word "manufacturing" add the words "otherwise interested in" would cover it.

Mr. DERR. If the courts should construe the words "dealing in" to be a professional dealer or speculator there is no doubt that would be sufficient.

Mr. TINCHER. I do not think so. I would not want to confine it to the professional dealer. I did not mean to bar the other fellow.

Mr. CLARKE. Was not that changed around to buying or selling for future delivery?

Mr. TINCHER. Yes; we contemplated that change.

Mr. DERR. I was not present when that was suggested, or at least I do not remember it.

Mr. TINCHER. Here is a proposition which I think is wrong, and I do not know how to word a law to correct it and I would not know, if I were Secretary of Agriculture, how to word a regulation to cover it, and still I think it ought to be cured by the commission men. You actually handle grain?

Mr. DERR. Yes, sir.

Mr. TINCHER. If you have 5,000 bushels of grain you wire in and sell an option against it and at the time you close out that option your commission man sends you a statement charging you up with a commission on that deal and the interest on the money that it has been necessary for him to put up as a margin to protect you. Now, there is another man who has not a bushel of wheat and never expects to have a bushel of wheat but has good credit and is financially all right, and on the same day he wires in and sells 5,000 bushels of wheat and his transaction is handled by the commission man identically as your transaction is handled. The commission man does not know whether you have wheat or whether the other man has wheat.

Mr. DERR. No, sir.

Mr. TINCHER. As I say, I do not exactly know how to cure that. I do not think any law could be worded to cover it without hurting the legitimate hedge, and I doubt if any regulation of the Secretary, if the power was given him, could be worded so as to prevent it. It is not exactly fair, however, and that borders on what we call over-speculation, and my idea was that under this bill, when that fellow had to go on record in making that deal, and if a record had to be kept of it, we would at least have the benefit of the record and know whether we ought to pass legislation in the future stopping that or not.

Mr. ASWELL. Also, the moral effect would be good.

Mr. TINCHER. Yes; but I do not know how to fix that in any law.

Mr. KINCHELOE. Under the illustration which has just been given, what do you think about that second fellow. Do you think he is any good to the trade?

Mr. DERR. He might be under certain circumstances or he might not be.

Mr. KINCHELOE. When there is not wheat involved at all I do not see how that could help the consumer or the producer when a man is just gambling on wheat. He has not got the wheat and never expects to have it, and it is nothing on earth but pure gambling.

Mr. DERR. As has been clearly explained here, a man going into the market at a time of depression and buying grain might help to carry, and would help no doubt, to carry, the load as has been described here.

Mr. KINCHELOE. He is doing nothing but trying to make some money by gambling on futures, and would he not be more likely to go in when there is not any depression; or if he did go in when there was a depression, would he not be more likely to do his best to drive the price down in order to speculate?

Mr. DERR. It would depend on how well he is posted and what his ideas were.

Mr. KINCHELOE. I do not care anything about his intentions. I know what his intention is. What I am talking about is, do you really think that is any good to the grain market or does that help the consumer or the producer?

Mr. DERR. Yes, sir; the speculator helps the consumer.

Mr. KINCHELOE. I am talking about that character of man that was illustrated just now, and not one like yourself, because you are in a legitimate business.

Mr. DERR. He is a speculator pure and simple.

Mr. KINCHELOE. Absolutely.

Mr. DERR. He certainly is a credit to the grain business at times if helping to carry the overproduction.

Mr. KINCHELOE. He buys the wheat and hedges against it and never expects to handle the wheat.

Mr. DERR. No, sir; it is purely a speculative deal.

Mr. KINCHELOE. In what way does that help the consumer?

Mr. DERR. It helps to carry the load for hedging purposes at the time when there is not a sufficient demand.

Mr. KINCHELOE. What I am talking about is this: Is he not likely to go in when there is a demand?

Mr. DERR. Yes, sir.

Mr. KINCHELOE. Would not that be a better time to go in for manipulation?

Mr. DERR. If anything, it would make a better market then than there would be otherwise.

Mr. TINCHER. That man has a little advantage of you because you have to borrow the money from your bank. I am assuming that all business men are alike. You have to borrow the money to pay for the wheat and put it in the elevator.

Mr. DERR. Yes, sir.

Mr. TINCHER. He has not got that end of the deal at all.

Mr. DERR. No, sir; all he has to do is to put up his margin.

Mr. ASWELL. Has he underwritten that much?

Mr. DERR. Yes, sir; he has underwritten whatever amount he has bought or sold.

Mr. TINCHER. Here is the difference between that man and yourself: The condition of the market does not affect your proposition at all. You do not care much whether wheat goes up or down, outside of the little matter of interest on your margin, because you have actually got the wheat. He has not got but one end of that deal and is taking his chances on that.

Mr. DERR. Yes, sir.

Mr. TINCHER. But he is enabled to take that chance, probably, through an arrangement with his commission man; if the wheat fluctuates 4 cents a bushel, his deal will be closed out or 3 cents a bushel his wheat will be closed out, or perhaps he has said to them, "Take care of this deal—I have made this sale—and protect my

margin," and he can go along and stop anywhere on the deal he wants to, whereas you do not stop at all but go ahead and play the game out.

Mr. DERR. Yes, sir.

Mr. ASWELL. Does his deal help this gentleman to protect his transaction?

Mr. TINCHER. I am just wondering about that. I would like to know what he thinks about it.

Mr. ASWELL. Does that man help you?

Mr. DERR. He certainly does, if there is not any other buyers in the market to take my sale. For instance, if a miller was not in the market at the time I offered 5,000 bushels for sale, wheat which I had purchased in the country and had in my elevator, or if the terminal elevator was not in the market, then there is nothing left but the speculator to sell it to.

Mr. ASWELL. What would you do?

Mr. TINCHER. Let us assume he does not buy wheat. Let us assume he did exactly what you did, and that he sold the same quantity of wheat on the board of trade. If he is an efficient speculator or a qualified speculator or a competent speculator, that is what he has probably done, and instead of buying he has probably sold. If he has sold it, what effect would that have on you?

Mr. DERR. There seems to be always enough incompetent men to take up all the sales offered.

Mr. TINCHER. There has got to be an incompetent man or some one to take them up.

Mr. DERR. I never in my life offered a sale of wheat but what it was instantly taken by somebody at some price. I have, however, offered flax for sale that was not taken on account of the limited scope of the flax market. There are not so many speculators, if you want to term it in that way, in the flax market at times.

Mr. TINCHER. Everybody in the world does not need flax while they do need wheat.

Mr. DERR. For instance, there have been times when you might offer a sale of flax in Duluth—when you could only hedge flax in Duluth—and 5,000 bushels might run down 5 cents before you could sell it, and vice versa it might go up 5 cents before you could make a purchase. It was very unsatisfactory to hedge flax at one time. It is better now because they hedge it in Minneapolis also.

Mr. JONES. I would like to ask Mr. Derr some questions.

Mr. Derr, in your opinion, who pays for the support and the expenses incident to this speculation, the public, the consumer, or the lambs or the producer, in a general way? I do not mean absolutely, but, in your opinion, who pays the bulk of the bill?

Mr. DERR. The speculator takes the loss if there is any loss.

Mr. JONES. The machinery is bound to cost something.

Mr. DERR. Yes, sir.

Mr. JONES. Now, in general, who pays that bill? Do you think the lambs pay that—those who are ordinarily referred to as the lambs?

Mr. DERR. If you term the speculator as a lamb; yes.

Mr. JONES. In other words, the expense of maintaining this machinery comes out of the public, whether it is a limited portion of the public or not? It is maintained somewhere?

Mr. DERR. Necessarily.

Mr. JONES. And they do not produce anything?

Mr. DERR. No, sir.

Mr. JONES. Therefore it is an expense.

Mr. DERR. If they have an accumulation of money that they want to speculate with and lose it, then the public itself or the consumer or the producer has lost nothing as far as the transaction is concerned in the speculation of wheat.

Mr. JONES. The general public has not. Now let me ask you another question, which was what I was leading up to. Do not about 90 per cent of the inexperienced speculators bull the market? Do they not buy rather than sell?

Mr. DERR. Yes; I think that is true. We figure that the country dealer is usually a bull on the market, even the country elevator.

Mr. JONES. He is a bull on the market, and the experienced speculator is usually a bear, is he not?

Mr. DERR. Not always.

Mr. JONES. Does not some one have to take the other side of these bulls?

Mr. DERR. Yes, sir.

Mr. JONES. Every trade has to have the other side to it. Now is it not the experienced and professional speculator trying to beat down the market all the time, while these country men are trying to push it up.

Mr. DERR. No, sir; not always. What you call the competent speculator sometimes changes over night.

Mr. JONES. I know that he sometimes changes.

Mr. DERR. Conditions make him change.

Mr. JONES. But let us suppose a great many of the small, inexperienced speculators are trying to bull the market.

Mr. DERR. Yes, sir.

Mr. JONES. Then automatically the experienced men are trying to depress the market, and are interested in depressing it, are they not?

Mr. DERR. I can not answer that in any other way than to tell you what I have been told in regard to the 1916 crop, where experienced dealers got it into their heads that the damage reports from the Northwest were not so extensive as reported. The country was bulling that market. They took the bear side of the market and sold it and lost $16,000,000. They were experienced dealers.

Mr. JONES. That would sometimes happen. You would not be able to get the lambs in if they did not occasionally win and if word did not go around that some of them had won.

Mr. DERR. Sentiment is the thing——

Mr. JONES (continuing). But I am talking about the general run of the thing. Now, let us suppose that enough of these inexperienced speculators, just to get an illustration, were to go in to buy 10,000,000 bushels of wheat, and they put up, in effect, 10 cents a bushel, are they not hanging up a purse of about $1,000,000 for the professional speculator to play for.

Mr. DERR. Yes, sir.

Mr. JONES. Now, is not that professional speculator interested in beating down the market in order to get that $1,000,000?

Mr. DERR. Yes; you might say they are hanging up $1,000,000 for them to play for; that is, the margin that has been put up on that transaction.

Mr. JONES. And since the lambs usually lose, if that is the way the market is supported——

Mr. DERR. But you see the other man——

Mr. JONES (continuing). Wait a moment. Since they usually lose, then the professional speculator usually depresses the market, does he not?

Mr. DERR. I did not say the lambs; I said if you called the lambs speculators, then they lost if prices go against them.

Mr. JONES. I am talking about the unaccustomed or inexperienced speculator, and he usually loses. Therefore, he is on the side of the producer who likes to see the market advance, and necessarily is not the professional or experienced speculator usually on the side of those who are trying to depress the market?

Mr. DERR. If conditions are right, yes; otherwise, no.

Mr. JONES. I am talking about the usual run.

Mr. DERR. From my observation I would say there is an equal chance on either side to bull or bear the market.

Mr. JONES. Your premise does not carry that out, because you say the lamb or the inexperienced speculator is usually bulling the market, and he is, is he not?

Mr. DERR. I say that is the way the country looks at it.

Mr. JONES. I have understood that 80 or 90 per cent of the inexperienced speculators bought rather than sold; in other words, they bull the market and count on the market going up. Now, somebody has got to take the other side.

Mr. DERR. Certainly.

Mr. JONES. And the inexperienced man usually loses, and it looks to me that it would follow logically that the experienced speculator is trying to depress the market, as a rule, but, of course, not always.

Mr. ASWELL. Mr. Jones, if he does depress the market, does that affect the consumer?

Mr. JONES. If he depresses the market, it might help the consumer, but it does not help the producer.

Mr. ASWELL. The law is not written in the interest of either class alone.

Mr. JONES. You have got to give the producer a living price for his products. The other side can usually be taken care of by increased production, if you get the price high enough. If you take care of the producer without unduly hurting the consumer, I think the situation will automatically adjust itself, in that it will encourage increased production.

Now going to another proposition, you say that speculation gives a stable market. Suppose you, as an elevator man, buy 10,000 bushels of wheat from a farmer or producer and you buy it for $1 a bushel and immediately turn around and sell it on the market for a little more than $1 a bushel. You are not much interested in whether wheat goes up or down.

Mr. DERR. No, sir; not as far as dollars and cents are concerned.

Mr. JONES. If it goes down you lose on one and win on the other, and if it goes up you do just the reverse.

Mr. DERR. Yes, sir.

Mr. JONES. Now if you did not hedge you would be interested in sustaining that price to $1 or above.

Mr. DERR. Yes, sir; I would be interested in trying to get my money.

Mr. JONES. In other words, would not the legitimate buyers of the actual grain be more interested in holding until the market was proper and keeping the market up and sustaining it if they did not have the privilege of hedging than if they were protected and did not care which way it went, and were therefore liable to dump it on the market at any time.

Mr. ASWELL. Would you buy if you could not hedge?

Mr. DERR. I would, but I would buy at a wider margin in order to take the chance.

Mr. ASWELL. What do you mean by that?

Mr. DERR. I mean I would have to have perhaps 10 or 12 or 15 cents a bushel as margin, as a fluctuating margin.

Mr. ASWELL. Would you pay the farmer as much for his wh if you could not hedge.

Mr. DERR. No; I could not. We could not do that during the war.

Mr. PURNELL. After all, that is the justification for hedging from the producer's standpoint.

Mr. DERR. Yes, sir; that is all from the producer's standpoint. A man operating a country elevator must have some assurance of his profit to buy on a small margin.

Mr. PURNELL. In other words, if he has to carry his own risk he must buy on a wider margin in order to furnish himself the protection that he gets under the hedge.

Mr. DERR. Yes, sir.

Mr. ASWELL. It seems to me that the point he makes there is that if he does not hedge he can not pay the producer as much.

Mr. DERR. There is absolutely no question about that.

Mr. PURNELL. That proposition seems to be pretty generally settled.

Mr. CLARKE. I am clear in my mind about that.

Mr. KINCHELOE. There has been a good deal said in these hearings with regard to the speculator sometimes selling short; what do you mean by that?

Mr. DERR. Well, for instance, if he deals in grain he sells more grain than he has on hand. If he is a dealer in the physical grain he sells something he does not possess.

Mr. KINCHELOE. Do you agree with these other gentlemen that the speculator is the man who carries the load?

Mr. DERR. I do, to quite an extent, yes.

Mr. KINCHELOE. And that thereby he helps the consumer and the producer?

Mr. DERR. He does; so far as narrowing the margin is concerned, as has already been explained

Mr. KINCHELOE. If the speculator sells short, how does he benefit them?

Mr. DERR. You mean there must be a seller if there is a buyer?

Mr. KINCHELOE. We were speaking about the speculator selling short.

Mr. DERR. Yes.

Mr. KINCHELOE. And you say they bear the load?

Mr. DERR. The speculator; yes, sir; to some extent.

Mr. KINCHELOE. And that the speculator is a benefit to the producer and consumer, and I simply can not conceive how he helps them if he sells short.

Mr. DERR. Well, if I have got 10,000 bushels of wheat to sell, there must be a buyer; and if I have got to buy it when I take in my hedges, there must be a seller. There might not be a seller when I wanted to take that wheat in. For instance, I ship the wheat on to the market, then I have got to buy in my hedges. If there is not a seller in the market so I could buy immediately, that might run into a heavy loss.

Mr. KINCHELOE. You are not selling short in the sense that you have sold more than you have got.

Mr. DERR. No, sir; but when I go into the market to buy, that man might be a short seller who takes my trade.

Mr. KINCHELOE. On the hypothesis that the speculator is a benefit to the consumer and the producer, my question was, How does he benefit either the consumer or the producer when he sells short?

Mr. DERR. That would be true in the case I have illustrated. If I went into the market to take in my hedge on 10,000 bushels I had already sold, grain which I had bought in the country, you understand—I sell that 10,000 bushels immediately or as soon as I can, on the Minneapolis market.

Mr. KINCHELOE. If you sell the same number of bushels you are not selling short.

Mr. DERR. No, sir.

Mr. KINCHELOE. I am talking about when you sell short.

Mr. DERR. When I ship that grain to the market then I have got to buy that grain back and I take in my hedge. Now, who is going to sell it to me?

Mr. KINCHELOE. I do not know; I am just asking for information.

Mr. DERR. If there is no seller there, I might have to fluctuate that market 5 cents a bushel in order to get in my hedge, and then I would be loser 5 cents a bushel between my cash sale and my hedge purchases. As it is now, I can sell a car of wheat instantly, within a few seconds, take in my hedge.

Mr. KINCHELOE. You would not be dealing in shorts then, would you?

Mr. DERR. No, I am not, but I am justifying the short seller at times, when there might not be another man who had the actual wheat to sell.

Mr. KINCHELOE. I do not know that I am censuring the short seller but I am basing my question on the hypothesis that these speculators bear the load and that they are a benefit to the consumer and producer. The point I can not conceive is how does it help either the consumer or the producer if the man who is a speculator sells short.

Mr. DERR. I do not know of any other way to explain it than the way I have explained it.

Mr. KINCHELOE. In your illustration you were not selling short.

Mr. DERR. But the man I might buy my futures from might be selling short, or some of them are.

Mr. KINCHELOE. Probably so but not necessarily so. In the illustration you gave that man might not be selling short either.

Mr. DERR. No; he may not be selling short but you can see how it would fill in a gap there in case there was not a man in the market who had the wheat to sell.

Mr. KINCHELOE. At the same time I can not conceive how that would help the producer and consumer, if he was selling short.

Mr. DERR. Well, that helps to stabilize the market at that time.

Mr. ASWELL. Mr. Derr, you said that if you were to buy 10,000 bushels of wheat and could not hedge, you could not pay the farmer as much as you could otherwise pay him if you could hedge.

Mr. DERR. Yes, sir.

Mr. ASWELL. Now, if you were to sell 10,000 barrels of flour and could not hedge, would you charge the public more for it?

Mr. DERR. The same condition would exist exactly.

Mr. ASWELL. Would you charge more for the flour if you could not hedge?

Mr. DERR. I am not a dealer in flour, but I presume they would have to. I do not see how they could help it, because they would have to take their chances on buying the wheat to fill that sale.

Mr. ASWELL. Then, under your theory, the hedging permits you to pay the farmer more and sell to the consumer for less.

Mr. DERR. I do think so, eventually. Now, that sounds rather broad. The only saving would be in the margin in handling the stuff in the country and to the mill, that is all. If you can save 5 cents a bushel on margins to the farmer, and the miller can save on his margins of flour to the consumer, I do not see why it is not a help on both ends. If I should have to buy wheat on an 8 or 10 cent margin in order to protect myself on the market——

Mr. ASWELL (interposing). It has been stated here several times in the first days of this hearing that every dollar made by the speculator was taken either from the consumer or producer.

Mr. DERR. Well, I can not see it that way, but, of course, there are lots of things I can not see.

Mr. MCLAUGHLIN of Nebraska. You spoke of buying on an 8 or 10 cent margin, but, of course, you were simply using that as an illustration. That is pretty high, is it not?

Mr. DERR. That was just an illustration, but I do not think it would be exorbitant, if you did away with future trading. During the war it was nothing to see wheat drop 10 cents in a day.

Mr. ASWELL. Did you have any speculative market then?

Mr. DERR. No, sir; not in wheat; in fact, I think it was on the 26th or 27th day of December, in 1917, that wheat went down 20 cents in one day.

Mr. ASWELL. Was there any speculation in it?

Mr. DERR. No, sir; that was during Government control.

Mr. TINCHER. That was on account of the law. The Government said, "You have got to deliver your wheat, and here is the price."

Mr. ASWELL. I simply asked whether there was any speculation.

Mr. TINCHER. No; there was worse than speculation. The Government simply said to the farmer, "Deliver your wheat, and here is the price."

Mr. DERR. Of course, that wheat went up again in three or four days to where it started.

Mr. ASWELL. And nobody gambled on it at all?

Mr. DERR. Not unless they bought the cash stuff. They may have speculated in it in that way, I do not know.

Mr. SINCLAIR. You would not claim there was more fluctuation in prices during the war than since the war or during Government control than since Government control?

Mr. DERR. The fluctuations have been very drastic this year.

Mr. SINCLAIR. Yes; especially in the last six months.

Mr. DERR. On account of economic conditions and world conditions, and the influence of public sentiment. Everything enters into that to cause those things as well as speculation.

Mr. SINCLAIR. We had a pretty stable price during the war.

Mr. CLARKE. Does lack of foreign credit also affect the price materially?

Mr. DERR. Yes, I think, perhaps, it does. I do not think that has so much to do with it as some other things.

The CHAIRMAN. It is a fact, is it not, that a number of grain dealers succeed without hedging?

Mr. DERR. They did during the war.

The CHAIRMAN. That does not answer the question. As a general thing, how many dealers hedge and how many do not?

Mr. DERR. I do not know of a grain dealer, outside of possibly a few farmer cooperatives, but what hedge their grain.

Mr. MCLAUGHLIN of Nebraska. It is a matter of testimony before this committee that when you sum it all up a little less than half of the grain dealers hedge.

Mr. DERR. I can not speak from my own knowledge. All of my acquaintances that I know anything about in the grain business hedge their grain.

Mr. ASWELL. What about that, Mr. Wells?

Mr. WELLS. I think probably the figures which the Federal Trade Commission compiled would show that less than half directly hedge their grain, but the other one-half are selling on card bids, and those bids are based upon the ability of the bidder to hedge the grain, so it is only one step removed, and all of the grain trade and all of the milling trade and the producers of the country are benefited by the system which does exist, whether they utilize it or not.

Mr. ASWELL. Will you tell us about the one step removed? What do you mean by that?

Mr. WELLS. I mean that in the case of the southwestern grain dealer and the dealers in the Central States, instead of hedging their grain in the terminal market by a future sale, they sell on a card bid. They receive a bid every day or every morning, or a number of bids, from dealers and industries offering them certain prices for certain grades of grain. They make sales on the basis of those card bids, as they are called. Now, the man who put out that bid is enabled to make the bid and buy any volume of grain which may be accepted on those bids, because of the fact that he immediately can hedge his purchases.

Mr. ASWELL. I see.

Mr. EVANS. Mr. Wells, why could not all purchasing elevators in the country then purchase their grain in that same way and so save the expense of one step at least in the hedge?

Mr. WELLS. Mr. Evans, I think I explained that very fully in my testimony. In the Northwest our grain is all sold on samples. There is a variation of 3 or 4 or 5 cents a bushel in the quality.

Mr. EVANS. Do you sell your futures on samples?

Mr. WELLS. No.

Mr. EVANS. Then it is only your cash grain that is sold on samples?

Mr. WELLS. If you will allow me to continue my statement, I can tell you why the Northwest uses the hedge instead of the card bid. The wheat of the Northwest is sold on sample. There is a variation of several cents a bushel. There are different qualities of the same grade. If a dealer in the Northwest has to sell his wheat on a card bid, he would never get the advantage of the premiums paid for certain qualities of the same grade. Consequently, he sells a future in the terminal market, ships his grain to market, and his grain is sold by sample and he gets the actual milling worth. It is for that reason that the hedge is used so much more largely in the Northwest than in any other section of the country. In other sections of the country, in the Southwest, for instance, the great volume of the wheat is sold on grade and grade alone, and that accounts for their ability to operate on the basis of the card bid more staisfactorily.

Mr. EVANS. Is it not a fact that in the Northwest the elevators hedge—I am talking now of the country elevators, or those elevators largely that represent lines or work under money loaned by the commission merchant. Or, in other words, is not the statement in the Federal Trade Commission's report accurate in that respect?

Mr. WELLS. I do not remember exactly what their statement is in that report, but I would say offhand that there are over 50 per cent of the elevators in the Northwest that are either operated by independent dealers, just having one house, or farmers' elevator companies, or cooperative elevator companies, and that the growth of the country elevators has been entirely in those three classes, that the so-called line elevators are elevators which are operated from a terminal market by a corporation owning a number of elevators, have shown an actual shrinkage in number during recent years, and that a large proportion of the independent, farmers', and cooperative elevators are financed, wholly or in part, by the commission dealers in the various markets; yes, sir.

Mr. EVANS. And those commission dealers require the hedge.

Mr. WELLS. Those commission dealers require the hedge exactly as my banker requires the hedge.

Mr. EVANS. In other words, the point I was getting to is that the great amount of hedging that occurs in the Northwest really emanates from the central market in Minneapolis through the commission merchants or the line merchants.

Mr. WELLS. It emanates from the purchaser of the grain in the country.

Mr. EVANS. I think, perhaps, that I have not made myself understood.

Mr. WELLS. The commission merchants are held responsible for the money they loan.

Mr. EVANS. And they require the hedge?

Mr. WELLS. It is just exactly the same as if you secure a loan on your house, the trust company requires you to carry insurance.

Mr. EVANS. The commission merchants in Minneapolis?

Mr. WELLS. The commission merchants in Minneapolis and Duluth; yes, sir.

The CHAIRMAN. I understood you to say that selling by sample was an advantage of several cents?

Mr. WELLS. Yes, sir.

The CHAIRMAN. To what extent?

Mr. WELLS. That depends on conditions.

The CHAIRMAN. What is the average premium on the grade price?

Mr. WELLS. There is no average. It depends on the climatic conditions. Some years we will have a rust or blight in one section of the country and the wheat will be very light. All wheat is sold in that way in the Northwest.

The CHAIRMAN. Cash grain sold on sample is an advantage?

Mr. WELLS. Only in a case where you have a milling market. Ours is a milling market. The grain is always the protection of the producer.

The CHAIRMAN. A farmer sells 10,000 bushels of wheat on sample and he gets an advantage of 5 cents or 2 cents, whatever it may be; if he sells it for future delivery he loses that?

Mr. WELLS. He does not make his delivery.

The CHAIRMAN. These are actual transactions where delivery is contemplated?

Mr. WELLS. Yes, sir.

The CHAIRMAN. And the contract is carried on exactly as you state?

Mr. WELLS. I explained in my testimony that while the technical delivery was not made an actual delivery was made through exchange, it is just the same, except it is prior to the termination of the contract.

The CHAIRMAN. According to that, actual delivery is very much of a disadvantage and it should be discouraged?

Mr. WELLS. It all depends on the conditions.

The CHAIRMAN. I understand that those conditions always exist, but vary from time to time?

Mr. WELLS. Conditions in the grain business never exist. Men in the grain business fail because they do not change their minds. They should change their minds two or three times a day. However, there is no arbitrary rule which can be established.

The CHAIRMAN. It is not possible to fix the grades to conform to the law and to represent all the variations?

Mr. WELLS. It is absolutely impossible for the reason that grain in a consumptive market is sold on sample. While you are getting the wheat to market, if you can insure yourself against a drop in price, it is certainly advisable.

The CHAIRMAN. I agree to that.

Mr. EVANS. But if the price of wheat rises he loses the rise?

Mr. WELLS. Yes, sir; absolutely.

Mr. EVANS. Are they not about equal?

Mr. WELLS. I will cite a sample.

Mr. EVANS. But generally? One particular case would not prove anything.

Mr. WELLS. I will cite two cases. The Federal Trade Commission were examining, when I came here in January, the books of an elevator company of which I am president. They were trying to determine whether the grain merchant, the grain elevator profited by buying in the fall and selling in the spring. They took two successive years. I do not now remember the years. In one year if we

had not hedged our wheat we would have made on wheat a gross of about $1,000,000. Having hedged the wheat, the subsequent advance in the market deprived us of that possible profit, so that the gross was $132,000. The following year we hedged our wheat and the market declined. If we had not hedged our wheat we would have lost enough to take the entire capital and surplus of that company, which amounts to some $1,200,000. It is up and down. One year you lose a lot and the next year you make a lot. There would be no stability in the business.

Mr. EVANS. Could you tell us the years?

Mr. WELLS. No, sir; that has just been called to my attention.

The CHAIRMAN. I understood you to say that you are for unrestricted speculation?

Mr. DERR. No; I do not say that.

The CHAIRMAN. What restriction would you suggest?

Mr. DERR. I said that I was in favor of speculation sufficient to take care of all legitimate demands.

The CHAIRMAN. To what extent, what restriction do you suggest?

Mr. DERR. That is something I do not know. I have never been able to satisfy my mind. As far as I have talked, everybody is in favor of restriction.

The CHAIRMAN. Do you think it is necessary to restrict speculation?

Mr. DERR. I think the exchanges themselves would be only too glad to have a solution of that problem.

Mr. CLARKE. Is not the Tincher bill the first step in the direction of eliminating gambling in wheat?

Mr. DERR. As I said before, if restricted——

Mr. CLARKE (interposing). With the suggested changes indicated?

Mr. DERR. I presume that would cover it; yes, sir.

The CHAIRMAN. Are you in favor of eliminating the merchants, bankers, and those not actually engaged in wheat growing or selling?

Mr. DERR. Not altogether. You have to have that class. I would not limit it to any class, except men without responsibility.

The CHAIRMAN. The elimination by the process that you suggest in the way of restricting speculation, you are not in favor of eliminating anybody from the speculation?

Mr. DERR. I do not think it could be done in any way, except the amount dealt in, either sales or purchases, over and above the actual grain offered for sale.

The CHAIRMAN. Would you favor such a provision?

Mr. DERR. If it could be done properly, I would, but I do not know who is going to tell us the class which should be eliminated.

The CHAIRMAN. Permitting everybody to speculate, that would include the Armours and those who are now manipulating the market, if there are any such manipulators?

Mr. DERR. Yes, sir.

The CHAIRMAN. You believe that they should be given a free hand to speculate, without any restriction?

Mr. DERR. I do not see how you could exclude them, only in the amounts dealt in. The amount would include everybody, even myself, although there is no danger of my affecting the market one way or the other.

The CHAIRMAN. Have you given any thought to what the limit should be?

Mr. DERR. No, sir. I have tried to think along that line, but I have never been able to reach any conclusion, because I do not know; it is so tremendous and the market is so sensitive. It is a big question how it would work out.

The CHAIRMAN. Do the elevator men in your section of the country buy grain themselves?

Mr. DERR. Yes, sir.

The CHAIRMAN. Have you any knowledge of anybody losing money or going bankrupt—you said that you did not know of anybody who did not hedge?

Mr. DERR. Losing any money?

The CHAIRMAN. Yes, sir; in the grain business by reason of hedging.

Mr. DERR. By reason of hedging?

The CHAIRMAN, Yes, sir.

Mr. DERR. Yes, sir; there have been cases where they have lost money by hedging.

The CHAIRMAN. If there are no other questions, we are obliged to you, Mr. Derr.

Mr. ASWELL. May I ask, Mr. Chairman, if we permit hedging at all can we, under the Constitution, eliminate any class?

The CHAIRMAN. I agree with the gentleman that the only way would be to limit the number of bushels outside of the actual requirements.

Mr. Wells, who is the next gentleman?

Mr. WELLS. Mr. Marshall, of the Missouri Millers' Association.

The CHAIRMAN. We will be glad to hear Mr. Marshall.

STATEMENT OF MR. W. H. MARSHALL, KANSAS CITY, MO.

Mr. MARSHALL. Mr. Chairman and gentlemen of the committee, my name is W. H. Marshall, of the W. H. Marshall Commission Co., operating on the Board of Trade of Kansas City.

I think I am qualified to speak in behalf of the flour millers on account of the experience I have had, which I will outline. For a number of years I was secretary to the Southwestern Missouri Millers' Club, which was membered by 50 different millers in southern Missouri, in parts of Kansas, and in Arkansas.

I will say at the outset that the attitude of the country miller is rather unique. He is in the attitude of encouraging farm operations, and, being so, he is not in the attitude of refusing to buy the farmers' wheat. A country miller must take the farmers' wheat when the farmer wants to sell it, whether the miller wants the wheat or not. He must be a sport and take the wheat. I will speak particularly in this instance of southern Missouri. In the fall, during the time that the wheat is moving, the miller must take the wheat as long as he can store it, and once his storage capacity is full he must make room for more wheat by shipping out that excessive stuff to some terminal market. It is necessary that the miller retain in his storage at home every bushel of wheat that he can possibly hold, for this reason: Were he to ship that wheat to market, his market would be either St. Louis or Kansas City and he would be shipping the wheat north of him. In the spring of the year he will need that wheat back and

at that time will have to go back to Kansas City or St. Louis to buy his stocks, and that would involve a double freight expense.

In order that he may hold that wheat at home, he must sell a deferred future as a hedge, which he does, as he accumulates the wheat. That is one of the operations of the country miller. Another one might be this: At the season that the miller is without wheat, although there might be stored wheat in the country around him, he may receive a proposition by which he can sell a thousand barrels of flour. He has not the wheat to make that flour. Figuratively speaking, that would involve 5,000 bushels of wheat. He can not stand in that attitude. He could not make the sale of that flour until he received the wheat to be used in the manufacture unless he could go into the market and buy a deferred future as a hedge until he can get in the wheat from around him.

The CHAIRMAN. Why does the first miller referred to hedge in the first instance?

Mr. MARSHALL. In the first instance, Mr. Chairman, that I dealt with—the case where the movement of wheat was heavy—the miller did not care to put up two or three hundred thousand bushels of wheat in his elevator at home and carry it without a hedge.

The CHAIRMAN. Because the bankers would refuse to finance him?

Mr. MARSHALL. Whether the bankers would finance him or not, or whether he was able to finance himself, would not prevent him from choosing to not take the risk in the market.

The CHAIRMAN. Is not exactly the reverse the case, he becomes a speculator? The wheat is to be ground in the following month, and, of course, the flour will have to be sold. The price of the flour is based on the prevailing price. If the price goes up or down, he is not concerned, because he has bought his wheat?

Mr. MARSHALL. You are assuming, Mr. Chairman, that this miller bought his stock of wheat in September and October and that it should reflect the price of the flour that he might sell in January, which he could not do. He would have to sell his flour in January or whenever he did sell it——

The CHAIRMAN (interposing). At the prevailing price?

Mr. MARSHALL. At the then prevailing price.

The CHAIRMAN. And the then prevailing price in January of the wheat might be exactly what he paid for it?

Mr. MARSHALL. He paid for the wheat the then prevailing price in September, and in order to take care of himself in the fluctuation that might come in the wheat between September and January he sold an option.

The CHAIRMAN. Exactly; which includes the carrying charges which would make it more expensive to him?

Mr. MARSHALL. If he sold an option and the market were to advance, of course the deferred excessive profit that he might have made he would lose, but he is not caring for that excessive profit; what he is trying to do is to protect himself against a loss.

The CHAIRMAN. The January price does not always follow the May price and in that short time I doubt whether he would get very much advantage.

Mr. MARSHALL. Well, he would have the insurance against anything occurring during that time.

The CHAIRMAN. That is true in the main. When that May contract matures, the wheat that is bought in January——

Mr. MARSHALL (interposing). It would make no difference about the maturity of the May contract, Mr. Chairman, with the sale of May wheat.

The CHAIRMAN. No. Last year cash wheat was selling about 12 to 14 cents premium.

Mr. MARSHALL. That may be.

The CHAIRMAN. The cash and future did not follow.

Mr. MARSHALL. That may be, but the relation of the cash to the speculative market will ordinarily be maintained. I mean to say by that, that if the May wheat were to decline 10 cents the cash wheat would come very near doing the same thing. There might be a slight variance, but not enough to prevent a man from taking the only insurance that he can find.

Now, with reference to speculation, it is the speculative public who make it possible for the grain merchant or the miller to get in and out of the market with his hedge instantly. A broad market is an absolute necessity to enable one to put out his hedge or take it in. By putting out a hedge is to sell, and taking in a hedge is to buy. If the market is a narrowly constructed affair, the taking in or the putting out of the hedge involves an uncertainty, and that uncertainty governs the margin of profit of one handling the grain. It requires a broad, active market to bring the two factors—I mean what is paid to the farmer for his wheat and what the consumer pays for the flour, brings those two factors closely together. You will be able to get a view of the value of speculation by looking at corn. To-day there are something like 30,000,000 bushels of corn in the visible supply. That corn is sold for May and for July by the people who have paid for the corn.

The CHAIRMAN. That may be true as to corn, but how about wheat? How do you account for the premium on cash wheat if there is a great surplus of wheat?

Mr. MARSHALL. The premium on our wheat can be attributed to this, there is an excessive demand for the cash wheat and a restricted trade in the speculative market; the markets are not balanced.

The CHAIRMAN. Is it true that the large speculators are selling an excessive amount to depress the market?

Mr. MARSHALL. An excessive amount?

The CHAIRMAN. That is quite frequently alleged; what is your opinion?

Mr. MARSHALL. I would not say that, because you must keep in mind that every time there is a sale there is contemporaneously a purchase; it takes two to make a trade. There is just as much wheat or corn bought as there is sold, and if you find that there is an absence of buyers——

The CHAIRMAN (interposing). If I find a concerted action of selling on the board of trade I know, of course, that the price is going down. I understand that is the method they employ to shake off the lambs.

Mr. MARSHALL. Or they may have a concerted absence of buyers; either will operate the same way.

The CHAIRMAN. Well, is it not a fact that the lambs come in on a certain inducement and after a while they get a little tired, the

market is doubtful, and when the opportune time comes the manipulators sell the market, which discourages the other fellows and they are shaken off and the deal is closed. That is generally alleged as being done. It is fair to assume that they are capable of doing a little scheming—that is quite natural, not only with the operators on the exchange but in every activity of life.

Mr. MARSHALL. I agree with you. That is quite prevalent outside of the exchanges, but I do not think there is anything whatever in that view.

The CHAIRMAN. Do you not think that it is possible for them to depress the price by concerted action in selling?

Mr. MARSHALL. Not in a broad market; no, sir.

The CHAIRMAN. Do you take any stock in the reports which have been published?

Mr. MARSHALL. I do not take any stock in the idea that any one person——

The CHAIRMAN (interposing). I am talking about concerted action among all of them—there is a little whispering and conference here and there—I do not think that can be eliminated from the board of trade or anywhere else.

Mr. MARSHALL. Really, I did not get the point of your question; I did not hear you.

The CHAIRMAN. Is it possible for the operators on the exchange to depress the market by combining and selling, thereby discouraging the contract holders?

Mr. MARSHALL. Such a thing would be possible, but it is not probable. It is something that is never done and that I never knew of. I have had experience on the exchanges for quite a long time.

The CHAIRMAN. I am glad to know that. If that is not being done, then why any legislation?

Mr. MARSHALL. Only that the public seems to ask for it.

The CHAIRMAN. You are perfectly satisfied with the conditions as they exist?

Mr. MARSHALL. The conditions existent, I think, are just about as good as we can get them.

The CHAIRMAN. You do not think there is any need for legislation?

Mr. MARSHALL. Only to satisfy a demand from the outside.

The CHAIRMAN. If we do legislate, would you be in favor of any restrictions in the legislation?

Mr. MARSHALL. In some particulars there might be something done that would be of benefit. For instance, it has been stated here that puts and calls are a detriment. I agree to that.

The CHAIRMAN. As to puts and calls, there is hardly enough of that worth mention, is there?

Mr. MARSHALL. I do not know; but it is an element, however, that should be restricted, whether it amounts to much or not.

The CHAIRMAN. How much of that is done?

Mr. MARSHALL. I can not give you my experience in puts and calls. I do not deal in them, but I imagine there is a volume of business done through that agency.

The CHAIRMAN. The real operators on the exchanges would naturally be against that because they do not engage in it. What you call the high-class operators on the exchanges do not engage in that business, do they?

Mr. MARSHALL. I would be unable to say that they do not. They may.

The CHAIRMAN. That is a specialty in itself, is it not?

Mr. MARSHALL. It is a specialty in itself; yes, sir.

The CHAIRMAN. And that does not properly belong to the exchanges?

Mr. MARSHALL. I do not think it is necessary.

The CHAIRMAN. Nor is it approved of by the exchanges, and never was, any more than the bucket shops.

Mr. MARSHALL. I could not answer that question intelligently.

The CHAIRMAN. The operator of a bucket shop was really a competitor of the grain exchange, was he not?

Mr. MARSHALL. The operator of a bucket shop?

The CHAIRMAN. He is a competitor of the exchanges and operates independently of the exchanges.

Mr. MARSHALL. A bucket shop, Mr. Chairman, is an institution——

The CHAIRMAN (interposing). All I wanted to know was whether he is or is not a competitor.

Mr. MARSHALL. He may be; yes.

The CHAIRMAN. Generally he is, is he not?

Mr. MARSHALL. I do not think there are any bucket shops now.

The CHAIRMAN. I know there are not any now, but I am referring to the time when they were in existence.

Mr. MARSHALL. They may have been.

The CHAIRMAN. Were they not competitors of the exchanges?

Mr. MARSHALL. They may have been; yes, sir.

The CHAIRMAN. Can you cite a single instance where they were not?

Mr. MARSHALL. I do not know that I had any experience on the board of trade during the existence of bucket shops.

The CHAIRMAN. The man who deals in puts and calls is really a competitor of the exchanges, is he not?

Mr. MARSHALL. No, sir.

The CHAIRMAN. He is simply speculating on a contract from one day to another.

Mr. MARSHALL. That does not make him a competitor of the board of trade or exchange.

The CHAIRMAN. It is a contract entered into for one day after the exchange closes, is it not?

Mr. MARSHALL. But they are transactions of the next day on the exchange.

The CHAIRMAN. He buys the other fellow's contract.

Mr. MARSHALL. My only point there is, Mr. Chairman, to say that the dealer in a put or a call is not a competitor of the boards of trade.

The CHAIRMAN. That is, outside of the board of trade.

Mr. MARSHALL. No, sir; it is not outside.

The CHAIRMAN. You buy a contract to-day for 10,000 bushels of wheat, and you sell it to John Jones, and you sell at a premium of $5. He is willing to take a chance for $5 on the market going up the next morning. Now, that is all there is to it, and the exchange has nothing to do with it, has it?

Mr. MARSHALL. But if that wheat is bought or sold the next day the business is transacted on the board of trade.

The CHAIRMAN. Of course, if he closes the contract; but the transaction itself is outside of the exchange and is it not a fact that most of the transaction is done over in a smoking room or over on the curb?

Mr. MARSHALL. That transaction can be conducted anywhere.

The CHAIRMAN. Exactly.

Mr. MARSHALL. But after all, it has the review of the board of trade.

The CHAIRMAN. So it is not a transaction on the exchange.

Mr. MARSHALL. Not in the same sense——

The CHAIRMAN. I just wanted to clear that matter up.

Now, what is your next restriction?

Mr. MARSHALL. The gentleman from Illinois made an inquiry on Tuesday, and his inquiry concerned a loss of $80,000 that was made by some one in Illinois in a transaction at St. Louis, and the answer he received was rather indefinite, and I would like to see if I can not clear that up a little bit.

The CHAIRMAN. Will you first kindly indicate the restrictions you think necessary on speculation, because we are on that subject now?

Mr. MARSHALL. The only other restriction that I have in mind concerning speculation would be with reference to wire houses.

The CHAIRMAN. That is really the subject of a little quarrel within the exchange, is it not?

Mr. MARSHALL. No, sir; I do not think so.

The CHAIRMAN. Is it not a fact that some of the members operate them and others do not and the ones that operate them are the big firms of exchanges and that the small firms do not have them?

Mr. MARSHALL. I said wire houses.

The CHAIRMAN. Oh, I understand.

Mr. MARSHALL. I am speaking with reference to paragraph (e) of section 5 of the proposed Tincher bill, and it was suggested by Mr. Griffin that privately owned or leased telephone or telegrapn lines should not be operated when connected with cities of a population of less than 25,000.

The CHAIRMAN. Why should they be operated in cities of 25,000 and not in cities of 15,000?

Mr. MARSHALL. I think my position in that matter, Mr. Chairman will make that clear to you. My position is that the bill as drawn is correct; but if there is a limitation to cities of a population of less than 25,000——

The CHAIRMAN (interposing). Why should privately owned or privately leased wires be prohibited?

Mr. MARSHALL. I would like to complete my statement first, if I may, Mr. Chairman.

The CHAIRMAN. Very well.

Mr. MARSHALL. And then I think you will get the connection. If the privately owned and operated or leased wires is to extend to cities of a population of not less than 25,000, I think the section or the paragraph should conclude with language something like this:

If such privately owned or leased telegraph or telephone lines are used to convey market quotations or transactions relating thereto to or from the public in general.

I think it is perfectly apparent that the view I am expressing is that a privately owned wire or a leased wire should not be operated for the benefit of the general public in towns of even 25,000 or more. Now I will answer your question.

The CHAIRMAN. You said you were in favor of eliminating them or prohibiting them entirely. Why should they be eliminated?

Mr. MARSHALL. Because, Mr. Chairman, a wire house has the effect of extending the arm of speculation to these small towns and also the larger cities in such a way that an opportunity is paraded before a class of people who are not speculators. They are what you might call and have called incompetent speculators. They have no right in the market. They have no information, and as a rule their losses disturb that particular neighborhood and for that reason we are opposed to private wires. That opposition would have the effect of eliminating some speculation, but I think it would be largely that class of speculation which should be eliminated.

The CHAIRMAN. Are the people in the smaller towns generally losers?

Mr. MARSHALL. Most of the people in these small towns buy and scarcely ever sell. They do that for the reason that I have just stated. They are uninformed. They can see the thing only in one way.

The CHAIRMAN. For instance, if wheat is $1.50 this year they simply assume that it is going to be $1.50 next year, and if it is down to $1 they think it is a good thing to buy it at that price.

Mr. MARSHALL. That seems to be their view.

The CHAIRMAN. By extending it to cities of 25,000 or more, would it not, to some extent, operate in the same way? They are not all professionals in the cities of 25,000 or more, but, as you say, it would lessen it if you restricted it to cities of 25,000 or less.

Mr. MARSHALL. My position, Mr. Chairman, is that the wire house should not exist at all, but it has been claimed that it is necessary to have these private wire houses to expedite business between offices of the same concern. They can have such a wire for that purpose, but not for the use of the general public, under my views.

Mr. ASWELL. Why would not a miller in a small town have the right to have the information as promptly as anybody else.

Mr. MARSHALL. He would.

Mr. ASWELL. How would he get it if he did not have a private wire?

Mr. MARSHALL. He would get better information through the agency of private wires than he would otherwise, but is it right to extend a convenience to that one small miller in that town, or probably two of them, and at the same time to expose to the public, who know nothing about the matter, an opportunity to do something they should not do and would not do if it were not for that private wire? Then answering your question further, Mr. Congressman, the millers all over this country get what are called CND's. That is a market quotation that is flashed out by the telegraph companies 15 minutes apart or 30 minutes apart or an hour apart, according to the requirements of that particular miller. He pays so much per month for these CND's and in that is information that keeps him pretty well posted.

Mr. ASWELL. Does he get that on private wires?

Mr. MARSHALL. No, sir; he gets it over the same Western Union telegraph service that you get your telegrams.

Mr. TINCHER. In other words, the miller the gentleman is speaking of does not use the private wire.

Mr. MARSHALL. No, sir; he may telephone to a private wire house occasionally to see what the market is doing, but he is also receiving these CND's.

Mr. ASWELL. Are not those CND's made public around that community?

Mr. MARSHALL. There is nothing to prevent that miller from telling somebody what the market is.

Mr. ASWELL. Would not that have the same effect as a private wire?

Mr. MARSHALL. If that person in that town to whom that miller told what the market is, if he is a speculator and a natural-born one, and is going to speculate, he will use the Western Union to communicate his directions to his commission man.

Mr. TINCHER. Before you leave the subject of puts and calls, I would like to ask you some questions, because I do not want to leave the record about a question of so much importance in the condition it is in. Puts and calls and indemnities and ups and downs are conceded by the trade and by the public and by everybody else to be pure and unadulterated gambling.

Mr. MARSHALL. I would not use your word, Mr. Congressman. They are an option covering a transaction that one may go into the next day.

Mr. TINCHER. They are not in the nature of a hedge which we have been talking about here at all?

Mr. MARSHALL. Absolutely not.

Mr. TINCHER. And those transactions are carried on on the board of trade to such an extent that Mr. Moffitt, the president of the Board of Trade of St. Louis, admitted that the doing away with them would reduce the amount of speculation on their board of trade to the extent of 10 or 15 per cent, and perhaps more, and to such an extent that Mr. Griffin—the president of the Chicago Board of Trade, said yesterday that the doing away with them—I do not want to misquote you, Mr. Griffin, would reduce their commissions and profits to a considerable extent. So they are a part of the present system and are used by the exchanges as a part of the present system of marketing.

Mr. MARSHALL. That has been my position; yes, sir.

Mr. TINCHER. I believe that Mr. Moffitt in his testimony anticipated that on his own particular board of trade such speculation amounted to 10 or 15 per cent, he said that it probably would be more than that on the Chicago Board of Trade. I suppose they are dealt in on the Kansas City Board of Trade?

Mr. MARSHALL. Yes, sir.

Mr. TINCHER. If there is overspeculation and manipulation and if there is, as I term it, gambling upon the grain market, and there is 15 or 20 or 30 per cent of it which is absolutely unnecessary to the trade and injurious to the business both of the consumer and producer, and we can do away with that in a bill, that bill in itself will have some merit, will it not?

Mr. MARSHALL. Yes, sir.

Mr. TINCHER. The boards of trade themselves can not do away with it because if one of them passes a regulation against it, the other one will simply profit by it and increase its business in that regard unless there is a general law on the subject.

Mr. MARSHALL. You are quite correct.

Mr. KINCHELOE. What percentage of the grain that you have in your mill—I understand you are a miller.

Mr. MARSHALL. No, sir; I am not. I am an operator on the Kansas City Board of Trade.

Mr. KINCHELOE. What percentage of your grain do you buy direct from the farmer—any?

Mr. MARSHALL. I do not buy any.

Mr. KINCHELOE. But you do contend, with these other gentlemen, that if the system of hedging were done away with it would not only be a detriment to the producer but would destroy the present system of marketing; is that your idea?

Mr. MARSHALL. My contention is that to do away with hedging or to prevent the freedom of it will necessarily widen the margin between what the grain dealer in the country can pay to the farmer and also the price at which the flour jobber can sell the flour to the consumer.

Mr. KINCHELOE. And you think, of course, the present system is the best one that has been suggested so far, and therefore you are not in favor of doing away with it. If I understand the system of this organization of farm bureaus in nonperishable products, especially, their ultimate aim is to construct cooperative warehouses in which to store their products and sell direct to the consumer, or in the case of wheat to sell direct to the miller. I want to ask you if you do not think, if that system were ever put in vogue, where the farmer can, through his cooperative warehouses, store all his nonperishable products especially, and if he had trained men to sell those products—and I grant you the fault lies in the fact that the farmer knows how to raise stuff but does not know how to market it, and I would not either—do you not think that would be a better system than any system that has ever been in vogue, so far as the farmer is concerned, if that could be accomplished?

Mr. MARSHALL. Well, that is a rather broad matter for a man to assume. I suppose the intent of your question is to say that if the farmer could take the billion bushel crop of wheat of the United States and figuratively stick it in his pocket——

Mr. KINCHELOE (interposing). I mean to put it into cooperative warehouses, if you call that his pocket.

Mr. MARSHALL (continuing). Until he takes a notion to sell it or dole it out in a parcel way, that he would be benefited.

Mr. KINCHELOE. You are now minimizing my premise. We have a cooperative system in California in perishable stuffs which is working to the benefit of the producer out there and it has proven an abundant success. Now, if the farmers can make a success of that system in reference to their perishable products, fruits of all kinds, like they are doing in California, why could not the farmers who raise these nonperishable products do it and make a success of it?

Mr. MARSHALL. They may be able to, I do not know.

Mr. KINCHELOE. I am just asking your opinion. For instance, if they had these cooperative warehouses for wheat, for instance, that was sufficient to store their grain, and I suppose they can do that because it is stored somewhere in somebody's warehouses.

Mr. CLARKE. They would pool that wheat or whatever the product was.

Mr. KINCHELOE. Certainly, they pool it, but they have to have a place to store it. If they had these warehouses and the facilities, and they had an expert man like Mr. Wells, for instance, or Mr. Griffin, in their employ on a salary, who have given a life study to this matter and who, in my judgment, know all the ins and outs about it, and could dispose of this wheat for them, do you not think under that system the farmer would get a better price for his products and there would be very little fluctuation in the market, and would get a bigger price than under this present system of hedging on the boards of trade?

Mr. MARSHALL. I would be unable to answer that, but I will say this, that if the farmer were to get what he would take, you would have the consumer here on you instantly.

Mr. KINCHELOE. Oh, I do not know about that. I do not think the farmer would run wild on a proposition of that kind just because he could. I think the consumer would take care of himself. I am talking about the other end of it now. If the farmer now has to dispose of his products ultimately to the consumer through a middleman, who gets his profit—and the Lord knows they do—and the consumer has to pay that price and the middleman's profit in addition, what is the reason it would not also be beneficial to the consumer if he could buy direct from the producer?

Mr. MARSHALL. You are asking me questions, Mr. Congressman, that I know nothing about. They are based upon an assumption and are around this bill.

Mr. KINCHELOE. It perhaps has nothing to do with this bill, but do you not think as a general, economic proposition if the farmer could sell direct to the consumer and eliminate the middleman's profit it would be a benefit to the farmer and could not the comsumer afford to pay him more for it and at the same time buy cheaper? Is not that an elementary proposition?

Mr. MARSHALL. It is an elementary proposition, but not a feasible one.

Mr. KINCHELOE. Why not?

Mr. MARSHALL. It is too involved for me to explain to you just why.

Mr. KINCHELOE. I do not see anything intricate about that proposition. If these people can store this stuff and go on a cooperative basis and employ an expert man to sell this stuff for them, which they should do, and which they are doing in California in perishable stuffs, I do not see anything intricate about it. Do you not think the greatest disadvantage that the farmer has to-day is in the defective system of marketing in order to get the stuff he raises direct to the consumer?

Mr. MARSHALL. In marketing what?

Mr. KINCHELOE. In marketing everything he raises.

Mr. MARSHALL. I am prepared to make an answer if you will speak of grain.

Mr. KINCHELOE. Well, let us take grain.

Mr. MARSHALL. I think he has a wonderful machinery fo the marketing of grain.

Mr. KINCHELOE. You fellows who buy this wheat that eventually goes to the consumer, of course get your profit out of it or else you would not be in the business.

Mr. MARSHALL. That is true.

Mr. KINCHELOE. Now, if you could be eliminated—I am talking about the middlemen now and I am not talking about you especially—and a system could be put in vogue whereby the farmer who raises this wheat could get it direct to the consumer and eliminate you fellows, as an economic proposition, do you not think the consumer could afford to pay the farmer more than he does now, and at the same time get it cheaper on account of eliminating your profit?

Mr. MARSHALL. If the farmer can eliminate me, for instance, and get his wheat into the consumptive channels without me, he would save 1½ cent.

Mr. KINCHELOE. That is a good deal on a year's crop of wheat in this country.

Mr. MARSHALL. Yes.

Mr. KINCHELOE. Let me ask you further about the system of marketing. Why is it not possible and probable and feasible, if the farmers will all go in and cooperate in these great warehouses and own them themselves, for them to handle that grain just as well as you fellows handle it on the boards of trade?

Mr. MARSHALL. I can not answer your question, Mr. Congressman, and that does not mean to say I yield to the incompetent market machinery of to-day. I am unprepared to answer a question like that.

Mr. KINCHELOE. I understand your position is that you think the present system the best system and the only feasible system, in your judgment, yet offered, and therefore you are for it.

Mr. MARSHALL. If there is some other system offered that is better, I will agree to it.

Mr. KINCHELOE. I was just asking your judgment about this other system of the cooperative farmers' organization for the purpose of controlling their own grain and selling it to the consumer.

Mr. MARSHALL. Before I could answer that I would have to have an opportunity to consider the question and all its angles.

Mr. TEN EYCK. May I ask you a question right there. It has been asserted here several times that the speculator stabilizes the market. Is that the fact? Does he control it in any way? He would have to control it to stabilize it, would he not?

Mr. MARSHALL. Not necessarily control it. He can stabilize it without controlling it.

Mr. TEN EYCK. A governor on an engine is a stabilizer of the engine and governs the engine.

Mr. MARSHALL. Yes.

Mr. TEN EYCK. Now, is not the same thing true of a governor or a stabilizer? It must have some control over the market.

Mr. MARSHALL. He has that control that holds the market in the even tenor of its way, just as a governor on an engine, but he does not necessarily control the market beyond keeping it in the even tenor of its way.

Mr. TEN EYCK. What does control it—the law of supply and demand?

Mr. MARSHALL. Yes, sir; and the elements, the crops——

Mr. TEN EYCK. That is the supply.

Mr. MARSHALL. It is the prospective supply.

Mr. TEN EYCK. If that is the case, then does the speculator increase the demand for grain for consumption.

Mr. MARSHALL. I do not know that he increases the demand for grain for consumption, but he does increase the demand for grain for speculative purposes.

Mr. TEN EYCK. Does he increase the supply?

Mr. MARSHALL. The same answer will apply there. He increases the supply for speculative purposes.

Mr. TEN EYCK. But he does not increase that supply and demand which governs the price, that we had reference to before when you used that as an argument that the speculator did not control the market, but that it was supply and demand that controlled the market.

Mr. MARSHALL. Oh, it is admitted that the speculator has nothing to do with the supply and demand of the wheat that is to be harvested.

Mr. TEN EYCK. That is what I wanted to know.

Mr. ASWELL. Mr. Marshall, Mr. Kincheloe has discussed the marketing plan in California as being a success in reference to nonperishable products, and that is true; but is it not also a fact that that same plan utterly failed in handling the bean crop when they were swamped with too large a supply of beans, and they are now "hollering" in California for a tariff on beans?

Mr. KINCHELOE. I do not know about that.

Mr. ASWELL. Well, that is true.

Mr. CLARKE. I think, Mr. Chairman, we are getting into questions of economics here rather than talking to the bill. I think if we want to have a discussion of economics we can devote a day to that, but let us now address ourselves to the bill here.

Mr. KINCHELOE. Mr. Chairman, I want to dwell a little further on that. I want to ask you, coming from Kansas City, to what extent has this farm bureau established warehouses in the Northwest, or do you know?

Mr. MARSHALL. I do not know.

Mr. KINCHELOE. My idea may be a little far-fetched, but my only purpose in asking you about that was to compare the two systems. My own opinion is that I think the time will come in my lifetime and yours, if we live it out, when these farm bureaus are going to establish these warehouses, and I think eventually you and I will see the day when the board of trade is absolutely out of business on grain.

The CHAIRMAN. Mr. Marshall, you started to tell us about the restrictions you thought were necessary and to give us your suggestions along that line. What other restrictions do you suggest?

Mr. MARSHALL. That is the only restriction I have in mind.

The CHAIRMAN. Are you in favor of prohibiting the use of wires entirely?

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. That was one of your suggestions?

Mr. MARSHALL. I am for the bill as written on private wires.

The CHAIRMAN. With no restriction as to speculation?

Mr. MARSHALL. Except as to puts and calls.

The CHAIRMAN. And you would let them go on and buy and sell billions and billions of bushels.

Mr. MARSHALL. I think that is necessary in order that the farmer and the country grain dealer may market their products.

Mr. THOMPSON. You started in a while ago to tell us what became of our friend Williams's $80,000. You started to explain that and I would like to hear that explanation.

Mr. MARSHALL. I was going to explain that, Mr. Congressman, in this way: We will imagine that a grain dealer at St. Louis made an offer for some wheat in Illinois, we will say, and he received an acceptance on 25,000 bushels; that is, he bought 25,000 bushels of wheat out in Illinois. He instantly went into the pit to sell a hedge of 25,000 bushels of wheat. The gentleman referred to from Illinois at the same time, we will assume, telegraphed into St. Louis to buy him 25,000 bushels of wheat. It could so happen that that gentleman's commission man offered to buy the 25,000 bushels of wheat instantly that this other man who wanted to sell his hedge offered his for sale, and the two traded. Now, the attitude of the man who bought the wheat from the country was that he was covered. He had bought 25,000 bushels of wheat from those farmers out there and had sold a hedge on the wheat, but some individual, in one of these little Illinois towns, undertook to conclude that the market was going to advance and he bought 25,000 bushels of wheat.

Mr. ASWELL. That was the Williams man?

Mr. MARSHALL. Yes, sir. The next operation, which is reasonable to assume, is that this cash grain man at St. Louis, having himself covered on both ends of the transaction, proceeded to merchandise that wheat. He would offer it to the seaboard and we will assume the seaboard took the wheat. He instantly went back into the pit and bought in his 25,000 bushels of wheat. Now, he was out of it. That grain merchant had bought this wad of wheat from the country, had sold it, we will say, in Baltimore, and in the meanwhile he has been hedged while he was merchandising that way. Now, let us follow that transaction a little further. The man at Baltimore instantly he bought it sold a hedge likewise, because he had to merchandise it. He offered that wheat to London. London was not in the market and would not take it. The Baltimore man was not necessarily interested because he was covered on both ends. Meanwhile, the market was declining. After several days, and after a sharp decline, London took the 25,000 bushels of wheat from the Baltimore man and the Baltimore man took in his hedge. About that time this man who has been designated as the Williams's man concluded he had enough and he sold out the wheat he bought, at a loss of $80,000. Now, the question is, who got the $80,000? The $80,000 covered the difference between what the farmers got for that 25,000 bushels of wheat, which was sold in Illinois, and what that grain merchant paid for it in London.

Mr. THOMPSON. That is very illuminating.

The CHAIRMAN. What would be the profit in a transaction of this kind: A man bought 100,000 bushels of wheat, say, last January; the premium being 15 cents a bushel, and hedged that wheat and bought a May contract and delivered the wheat in May. What was his profit? I am talking now about the advantage of hedging.

Mr. MARSHALL. What kind of wheat did he buy?

The CHAIRMAN. He bought the cash wheat. He bought the cash wheat from the farmer, put it in his elevator, paid his 15 cents premium over May, and held his wheat and delivered it the 1st of May.

Mr. MARSHALL. He bought 100,000 bushels of wheat at a price and put it in an elevator——

The CHAIRMAN. Cash wheat?

Mr. MARSHALL (continuing). And sold May wheat against it, and carried the cash wheat until May and delivered it on the contract.

The CHAIRMAN. Yes.

Mr. MARSHALL. His loss would have been $15,000.

The CHAIRMAN. Then he lost $15,000 on his hedge.

Mr. MARSHALL. If he had operated the matter in that exact way.

The CHAIRMAN. That is the way it has been explained it is generally operated, and instead of a profit there was really a loss of $15,000 on that hedge.

Mr. MARSHALL. If that is the way it has been explained here I would not agree to that explanation.

The CHAIRMAN. That is the ordinary way, as has been explained here.

Mr. MARSHALL. Then it has been explained wrong.

The CHAIRMAN. I admit that generally it operates the other way, but there is the possibility of a loss, is there not?

Mr. MARSHALL. What that man would have done, in actual practice, Mr. Chairman, is to have sold out that 100,000 bushels of wheat to some miller for export or something else. He would not have carried it until May and delivered it on the contract, as you state, but when he did sell it out to a miller or for export he bought in the hedge.

The CHAIRMAN. But that is not the way these transactions have been explained. They tell us you can not get the cars and for that reason it is necessary to hedge and that you have to carry the wheat and buy the hedge to guarantee against loss, and I am simply pointing that out to show you that there can also be a loss sustained.

Mr. MARSHALL. The transaction as I have explained it is the correct one.

The CHAIRMAN. And there is a loss in hedging of $15,000.

Mr. MARSHALL. No; I mean——

The CHAIRMAN (interposing). I mean under those conditions.

Mr. MARSHALL. I mean the transaction as I explained it would have been the way it would have been handled. It is true that if a man pays 15 cents more for an article than he can get, and more than he got at the time of sale, he is bound to lose $15,000 on 100,000 bushels.

The CHAIRMAN. But that is the only way to hedge, when the grain is at a premium and wheat has been at a premium all the time but when you go to deliver, then you take the fixed price.

Mr. MARSHALL. But he merchandises the cash wheat.

The CHAIRMAN. But he can not merchandise it because he can not get the cars or he can not get a boat or the proper elevator facilities and all those things, and that is the reason given for hedging.

Mr. MARSHALL. You are assuming, Mr. Chairman, that that man was unable to merchandise that wheat and was forced to carry the wheat through to May, which assumption can be correct, but I will state that his intention was not to do that thing but the failure to procure cars might have put him in that position, and in that case he might have lost $15,000.

The CHAIRMAN. That is true, and that is the excuse given for hedging, and I believe the best excuse that can be given for it, and I believe is a good excuse, and I am simply pointing this out to show that there is a possibility of losing in a hedge.

Mr. MARSHALL. Absolutely.

Mr. JONES. What would he have lost in that same case if he had not hedged?

Mr. MARSHALL. If he had a prospective profit of 2 cents in that wheat when he went into the matter, and if the cash wheat had declined 10 cents, and he sold the cash wheat at a decline of 10 cents and he had bought in the May wheat at a decline of 10 cents, his profit would have been 2 cents a bushel.

Mr. JONES. I mean if he had not hedged at all and had carried that wheat like you say.

Mr. MARSHALL. If he had not hedged at all his loss would have been 10 cents a bushel.

Mr. TEN EYCK. May I ask you a question right there. Suppose wheat went up 10 cents a bushel what would have happened to him?

Mr. MARSHALL. He would still have made the 2 cents a bushel in this way: If the cash wheat had advanced 10 cents a bushel he would have on that end of the transaction made 10 cents, but the May advanced also 10 cents, and there he lost 10 cents, but he did maintain the 2 cents profit he had in the beginning.

Mr. TEN EYCK. Let me ask you this queston in order to get it quite clear. Suppose a farmer has 1,000 bushels of grain and he hedges on that 1,000 bushels of grain and the price after he hedges advances 10 cents a bushel, what is the result to the farmer?

Mr. MARSHALL. The result is that he sold his wheat at the price he wanted to sell it for at the time he sold it.

Mr. ASWELL. And he simply lost an opportunity.

Mr. TEN EYCK. He lost an opportunity for a profit of 10 cents a bushel more on his grain.

Mr. MARSHALL. Yes, sir.

Mr. TEN EYCK. And in the same way if it went down 10 cents he protected himself against a loss of 10 cents.

Mr. MARSHALL. Absolutely.

Mr. KINCHELOE. In reference to the theory that the speculator stabilizes the market and therefore benefits the consumer and the producer, and with reference to this illustration you gave of Mr. Williams's constituent losing $80,000, your contention still is that the fact of his losing $80,000 helped the producer and consumer as well as the boy himself and the stockholders of the bank which he broke.

Mr. MARSHALL. I would not put it just that way. The facts would be these: He bought the 25,000 bushels of wheat that his neighboring farmers were selling. He created the opportunity for those farmers to get the price they did get for their wheat.

Mr. KINCHELOE. And his loss of $80,000 increased the price to the farmers.

Mr. MARSHALL. If you speak of that man in the singular term, that is, that he was the only speculator in the market, and if he had not bought their wheat, the farmers would not have sold their wheat and would have it yet.

Mr. KINCHELOE. Do you think they would in fact have their wheat if that fellow had not bought it?

Mr. MARSHALL. I say if the speculator referred to were the only one buying in the market then they would have it and that would be the result.

Mr. KINCHELOE. Wouldn't there be a fair possibility that the consumers around there, the millers, and others, would want to buy up the wheat?

Mr. MARSHALL. I am talking about speculative wheat.

Mr. KINCHELOE. You think he benefited by taking this chance on the board of trade and speculating?

Mr. MARSHALL. No; I do not think he did in that case.

Mr. KINCHELOE. Do you think the farmer benefited?

Mr. MARSHALL. If there was a difference of $80,000 in the value of the wheat from the time that fellow sold it, unloaded his wheat by selling it in London, then the farmers must have been benefited or the Londoners must have been benefited.

Mr. KINCHELOE. And the consumer got the benefit, too?

Mr. MARSHALL. Well, the consumers in that case were in England.

Mr. KINCHELOE. I don't care where they were; but I am talking about what the result was, though I am more interested in the general proposition.

The CHAIRMAN. Let me read to you from a statement made by Mr. A. L. Middleton, of Eagle Grove, Iowa. He says:

> We could not get cars during the summer. Our elevator was filled with corn. Our farmers were anxious to unload. They needed the money, and the price was satisfactory and our elevator was filled. We permitted our manager to hedge. He attempted to for June delivery, but the trouble was that the hedge was short and we could not get cars to deliver. He could not unload in the meantime. When he attempted to renew his hedge he found that there was a spread between cash and future which was unusually wide. It reached a point where there was a difference of 20 cents between cash and future. Cash was 20 cents higher than future. It placed our manager where there was only one thing to do. He had to buy back his hedge. He bought back the hedge and the result was they dumped the cash corn on him in the exchange and the props were taken from under cash corn, and he had that cash corn on his hand and had to unload it. He took his loss of 20 cents a bushel on that corn and still had his corn in the elevator.

It does not seem that my illustration was an extreme one. I put it at 15 cents, and here is a net loss of 20 cents a bushel on a hedge, besides all the commission, which I take it would run it up to about 25 cents. The actual loss on the grain was 20 cents a bushel besides the interest on the margin and the various commissions.

Mr. MARSHALL. As I was able to follow you I would answer that the farmer sold the grain——

The CHAIRMAN (interposing). He bought for cash and the spread was there and he lost his 20 cents, the same as the wheat market. You can not get away from it; it is there. But I will agree with you that generally they can hedge to some advantage, and in many instances it is an insurance, but not in all instances.

Mr. MARSHALL. It is not infallible.

[illegible] Mr. Chairman, you must not overlook the fact [illegible] are accused of speculation and manipulation [illegible] I will just relate an instance which might [illegible] As we all know, it was just a year ago, beginning about [illegible] wheat advanced very remarkably. It sold for over $3 a [illegible] Kansas City. What caused that? If you will take the [illegible] upon the Department of Commerce for a bulletin that [illegible] published recently, I think it was early in April. [illegible] will find a story which I will now briefly outline. A member of [illegible] Parliament, in London, Mr. Currie by name, made a re- [illegible] statement in that body to the effect that England was [illegible] toward a broad famine; that all of Europe was headed toward [illegible] that there was no wheat in the world; and that the efforts [illegible] made to procure bread for the people were inadequate and that [illegible] progress being made in that direction was leading Europe. [illegible] England, toward starvation. Of course, that news [illegible] over the world instantly and all of Europe went into the [illegible] wheat. It was not a question of price but getting wheat.

England did the same. Buying became so rampant that it was not question so much of price as it was of quantity.

To particularize, just at that time I myself offered 50,000 bushels of wheat to the seaboard. If I remember aright the price was $2.85 bushel, which was slightly above the market. The response was hat they would take the wheat if I would offer 250,000 bushels. That merely indicated that it was quantity and not price that was being considered. I went back with the proposition, renewing my original proposition, to sell 50,000 bushels at $2.85 a bushel, and hey renewed their proposition to take it at the price if I would make the quantity 250,000 bushels. I responded that I would make the quantity 200,000 bushels and they took that number. The story, if you will read it, will tell you the situation.

The CHAIRMAN. Well, that story applies to that particular time. But the cash premium has been about the same all the time.

Mr. MARSHALL. I am coming up to what the speculator was blamed for. Mr. Currie was censured for having made that statement, and the British commission was called upon to do something to counteract it. What happened? If you will take up the history of our grain market, the fluctuations and all, you will find that it was about that time that the British commission, which is the buyer of wheat for England, was out of the market. They had an oversupply bought, so we were told.

The CHAIRMAN. At what time was this?

Mr. MARSHALL. It was probably in July.

The CHAIRMAN. July of last year?

Mr. MARSHALL. Yes; or August it might have been. France immediately went out of the market and said they were oversupplied. They went out of the market. In other words, there was a collusion if you will read between the lines. All of the European countries went out of the wheat market. Meanwhile we had a world of sellers here in America who wanted to sell their wheat and there was no support, and the market started down from that level of about $3 a bushel and fell to where it is to-day. And why? For the reason that the manipulation came from abroad.

The CHAIRMAN. That may account for the falling of the price at that time, but if the world is full of sellers and no buyers, why should that bring wheat to a premium of 14 cents or 20 cents a bushel.

Mr. MARSHALL. A premium of 14 cents for what?

The CHAIRMAN. Over or the future.

Mr. MARSHALL. Wheat brought a premium of 30 cents for the future at one time.

The CHAIRMAN. But I wanted to be on the safe side and so I mentioned 14 cents.

Mr. MARSHALL. It did that because there was a lingering demand for that cash wheat. In other words, the buyer would take the cash wheat then because he needed it, but when he looked way ahead into the month of May he was not willing to contract that far ahead at the prevailing price for cash wheat, and his views as to what wheat would be worth in May or July were quite different.

Mr. ASWELL. Under our resolution, Mr. Chairman, at the beginning of these hearings we were to give a certain time to the hearings. The time has expired, and now what shall we do?

The CHAIRMAN. Well, that is for the committee to decide. Mr. Wells, have you any other witnesses?

Mr. WELLS. We have one witness who will consume about two minutes, if you will hear him.

Mr. TINCHER. I want to say that this committee has never stopped promptly at 12 o'clock, and I do not think it requires any motion to hear the witness Mr. Wells still has to be heard.

Mr. ASWELL. Certainly not, but I was only calling attention to the arrangement we made when we decided on hearings.

The CHAIRMAN. Are you through, Mr. Marshall?

Mr. MARSHALL. I have a matter I would like to put on the record, and it will take me only a minute. It was charged a day or two ago that under the rules of the grain exchanges, the boards of trade, a transaction growing out of an option trade would not be arbitrated. I am prepared to say to you that I am a member of the arbitration committee of the Kansas City Board of Trade, and that the information given was absolutely incorrect.

The CHAIRMAN. Isn't it a fact that contracts are made in such shape that there is nothing to arbitrate; that one side of the transaction makes its own terms in the contract and therefore there is nothing left to arbitrate?

Mr. MARSHALL. If there is a controversy growing out of the contract the matter can be arbitrated. I would like to put on the record Article XI from section 1 of the rules and regulations governing the Kansas City Board of Trade.

Mr. TINCHER. You may put that into the record and then let us sit and hear the other witness. Just hand it to the reporter.

The CHAIRMAN. We do not want to cut you off, Mr. Marshall, but it may be put into the record.

Mr. MARSHALL. I am through if you have no other questions.

(The section referred to is as follows:)

It shall be the duty of the committee of arbitration to hear and determine all disputes of a financial, mercantile, or commercial character connected with or arising from any matter referred to in the constitution, by-laws, and the rules and regulations of this association arising among members of this association or between any of them and others when brought before it.

SEC. 2. All disputes, differences, or disagreements of a financial, mercantile, or commercial character are hereby agreed to be submitted to the committee on arbitration for adjustment.

The CHAIRMAN. The committee will now hear the next witness that Mr. Wells wishes to be heard.

Mr. WELLS. I would like the committee to hear Mr. James N. Russell, vice president of the Kansas City Board of Trade.

The CHAIRMAN. The committee will be glad to hear Mr. Russell.

STATEMENT OF MR. JAMES N. RUSSELL, PRESIDENT OF THE RUSSELL GRAIN CO., GRAIN COMMISSION MERCHANTS, KANSAS CITY, MO.

Mr. RUSSELL. I am here representing the Kansas City Board of Trade, and am the first vice president of that grain exchange.

If you will permit me to quickly read and then submit my memoranda in writing for the record, I can cover my report more fully, but briefly, and save much of the time you have allotted me. Any

questions you may desire to ask afterwards, I will try to answer to the best of my ability.

I regret that the Kansas City Board of Trade could not have been represented by our president, Mr. B. L. Hargis, for he so ably represented our organization at your hearing here last January, and no doubt at that time covered perhaps in detail most of the points that could be mentioned by me now. Mr. Hargis was unable to be here and has commanded me to appear.

I was so hurriedly notified to take the train and leave for Washington that I have had no time to discuss with others as to why I was sent. These sayings I have jotted down while en route on the train.

I have read the new Capper Senate bill, or the Tincher House bill, which I understand is the same as the Capper Senate bill; but if there are other House bills up for hearing at this meeting I am not familiar with same, unless it is the Haugen legislation, a copy of which was handed me as I got on the train. Our board of trade has had no time to investigate the Haugen bill, and I feel I am not in position to express myself as to the points of that legislation.

The CHAIRMAN. Let me say in regard to the Haugen bill that it is the bill of the Department of Agriculture, prepared by that department, and is, as I understand, what the Department of Agriculture stands for.

Mr. TINCHER. Do you mean the present Department of Agriculture?

The CHAIRMAN. It is the one introduced a year ago, or last spring. It is patterned after the cotton futures act, and was prepared largely by the Department of Agriculture, and as the hearings show the Department of Agriculture stands sponsor for it.

Mr. RUSSELL. It is not necessary to inform you as to how our organization was started, its purposes, its constitutional preamble, its requirements for membership, how old we are, how we have progressed, etc. All of this is a matter of record given here at former hearings, and our exchange is similar in most all respects to the Chicago, Minneapolis, Duluth, St. Louis, and Omaha bodies that have already had their representatives appear before you.

If, however, there are any members of this committee who are not familiar with our rules, regulations, etc., I would be glad to go into the details if you think it necessary.

We, at Kansas City, naturally feel very proud of our board of trade, the progress it has made the past many years, and the apparent good standing of its members. The community, I think, appraises us highly. Those who have dealt with us as an organization I believe commend our principles and would defend us if it was found necessary.

Our grain-marketing machinery, known now as boards of trade, has increased and developed from necessity and has grown better each year from suggestions from the producer. We aid the consumer, but as former President Gates, of the Chicago Board of Trade, says, and I will quote him verbatim as follows:

> Our market was organized to facilitate business. It serves both classes. It serves all the people. But it was not organized either for producer or consumer. It was organized simply as a business proposition to facilitate business and to furnish a service which would attract to the market the grain that was tributary to it.

Personally, gentlemen, I feel I am in a perfectly sound, legitimate business, have been raised in it, my daddy was in it, my brother was in it, I am proud of my business and the organization I represent. It is distressing and discouraging to me at times to pick up the newspapers and see where some one is referring to our organization as a "den of thieves" and to its members as a "bunch of gamblers."

The CHAIRMAN. No one has ever suggested here before the committee that your Board of Trade was a bunch of gamblers. No member of the committee has ever so referred to it.

Mr. RUSSELL. I said that we are so referred to in the newspapers, Mr. Chairman. Such assertions, of course, spring from biased persons and serious consideration perhaps should not be taken of such. I want you to know I am not in the class referred to and do not now represent any such sort.

My teaching has been in my dealings, to lay the cards on the table, so to speak, and I think I can speak for my organization when I say we welcome your investigations. We have nothing to cover up; we are legitimate, always have been, always expect to be.

I am informed that yesterday and to-day, many have appeared here representing the various markets, and it would only be repeating what has been said for me to go further into detail as to the present marketing of our grain at Kansas City. Our system is practically the same, with few exceptions, as that furnished by the Chicago and Minneapolis markets. I can only substantiate what has been said by President Griffin, of the Chicago Board of Trade, and past President Frank Wells, of the Minneapolis Chamber of Commerce.

It seems that conclusive evidence has been presented showing that the wide-awake successful grain man wants the hedging system for his dealings in grain—he demands it. Right here I would like to quote and make it a matter of record, the opinion of our Mr. Hargis as to hedging:

> If it is admitted that exchanges are of value and it is admitted that hedging is a proper process, then ultimately it must be admitted that speculative trading is a primary necessity of the operation, especially of hedging and secondarily of exchange trading. It must be ovious that when the surplus movement of wheat is on and the supplies coming to market are far in excess of the shipping requirements, some one must finance and store the grain. Only those of practically unlimited capital could undertake this without hedging facilities. The only purchasers without speculative trading would be those actually requiring wheat, and nobody requires all of the wheat when there is a supply far in excess of any immediate or known outlet.

Mr. Hargis further stated at your hearing here last January the following:

> Under ordinary processes in the grain business the elevator operator buys his grain and immediately sells a future against it—that is, hedges his supply. This is a very necessary operation, inasmuch as the bankers lending large amounts to these dealers must be guaranteed against loss, and in hedging the profit is reduced, but the insurance against loss is also acquired. Hence grain can be turned over through these houses on a much narrower margin of profit than in other commercial lines. Hedging, in my opinion, affords an insurance, but of course not an absolute insurance. But it is as nearly perfect as could be made and reduces the hazard to a minimum. It is as good a protection as the 90 per cent coinsurance you have to take out and such as that.

At this time I would like to introduce as a matter of record, copies of the two letters that Mr. Hargis introduced here as evidence from our Kansas City bankers, at the last hearing. One is from the

Commerce Trust Co. of Kansas City, which is the biggest bank in the Middle West west of St. Louis and Chicago ; it is as follows:

NATIONAL BANK OF COMMERCE,
Kansas City, Mo., January 21, 1921.

Mr. BENJAMIN L. HARGIS
President, Kansas City Board of Trade.

DEAR SIR: I have just learned you will go to Washington to-night to appear before the congressional committee that has before it the question of future trading in grain.

I hope and believe you will have little difficulty in convincing this committee that it would be disastrous to the grain and milling trade generally it a bill was enacted preventing future trading. We perhaps have more grain and milling accounts than any bank in the Southwest. I say to you we wouldn't feel safe in advancing money on stored grain, or grain to arrive, unless there was a future market enabling the dealer to protect his purchases as well as his sales. We advance to many of our grain customers because of this protection many times the actual capital employed in their business.

I can not believe that Congress will pass such a measure after the matter has been presented to it, as I am sure it will be by intelligent, unselfish grain men like yourself.

Leaving the grain men entirely out of the question, the bill as contemplated would be disastrous to the farmers, whom, as I understand, it is designated to help. It would retard the movement of grain in its usual orderly way and would have the tendency to make a speculator in cash grain out of the farmer, miller, and country grain dealer, because without a future market the large storage warehouse at terminal markets could not safely store grain for use of millers and exporters sold for deferred shipment.

This is not only a serious problem of the grain trade, but it is just as serious to the banker. I believe that you will be successful in convincing the committee, and if there is anything that we can do to prevent its passage, please do not hesitate to command us.

Yours, very truly,

W. T. KEMPER,
Chairman of the Board.

The other letter that I wish to be made a matter of record is from the governor of the Federal Reserve Bank of Kansas City, tenth district:

FEDERAL RESERVE BANK OF KANSAS CITY,
January 12, 1921.

Mr. B. L. HARGIS,
President Board of Trade, Kansas City, Mo.

DEAR MR. HARGIS: Answering your inquiry 12th, it is my personal opinion that unless handlers of grain, cotton, and some other commodities were able to protect themselves by hedges no bank would be safe in financing such transactions.

That a few people, or a great many for that matter, abuse this facility so necessary for commerce, is no reason in my opinion why trading on the board should be prohibited.

Yours, truly,

J. B. MILLER, Jr.

Continuing further, it is my opinion that it would be disastrous to the satisfactory marketing of grain if you limit the present broad possibilities, which you would do if you permit only the hedging of cash grain and drive out speculation. One is entirely dependent upon the other for the present successful operation of the grain business.

There might be some evils that have crept into the present system, such as occasionally excessive speculation and at times in the past manipulations of our markets. It apparently has been very conclusively shown by others appearing here that there is a decided difference between hedging, speculation, and manipulation. In my opinion we, as boards of trade without special legislation, can ultimately, if not already done now, drive out completely the manipulator. As to the speculator, it has been shown—apparently conclu-

sively—that without speculation there could not be the broad, practical hedging of world market grain. Without hedging the producer would not have the broad market for his grain.

If, however, you show us where we are violating trading conditions that are not beneficial to the producer and at the same time can point out a way to relieve the condition, without killing the "goose that laid the golden egg," we will join in gladly and recommend such legislation.

The following assertion, made by Mr. F. C. VanDusen, Minneapolis, Minn., representing the Minneapolis Chamber of Commerce, at your last hearing here, is to the point and appropos at this moment. He said:

> The destruction of future trading by congressional legislation would produce complete demoralization in the grain and milling business. The enormous increase in the hazard incident to the grain and milling business would necessarily result in the elimination of the farmers' elevator company, independent dealer, and small grain merchant generally. It is generally believed by competent observers that the grain and milling business would necessarily drift into the control of a limited number of concerns of very large financial resources and that the grain and milling business of this country would take on the form and character which the meat-packing industry now presents. The spread between the price paid to the producer and the price paid by the ultimate consumer would necessarily widen out materially.

Even with considerable criticism made of our present marketing system, it is apparent that supply and demand fix the price of grain. For every seller of wheat there is a buyer, and vice versa. Eventually, every trade is liquidated. Our representative exchanges have proven to be the go-between between producer and consumer.

With the future market as now conducted it is a source of knowledge to the producer as well as the grain dealer. The markets, as now conducted, always afford a marketing place where the producer can always find, at some price, an offer for his grain. When our customers call or wire us for a bid on their offerings, either for 10, 20, or 30 days' shipment, we are in a position to bid the full market on acco nt of protecting immediately our purchase by selling the future as a hedge. If you take away by legislation the privilege of the speculator to make this option or hedging privilege possible, what would the condition then be? What substitute would be offered? If you would expect me to carry the risk and later find a buyer, I question if such load would be wanted, unless at a great big margin of profit. Many of the successful operators, who are carrying the big loads of grain to-day by hedging, are handling such a volume on a very small margin of profit. Take away the hedging privilege that assures the operator of his insurance against loss, and who would carry the load? I would not and not any of you gentlemen would want to, if you were in the business. The speculator is willing and we will let him carry it. The producer profits thereby.

I am going to conclude by saying, let's be constructive in our ideas. Lots of legislation sounds, in theory, well, but in practice it might be condemned. Let's not tear down, unless we can build better and stronger.

Now, gentlemen of the committee, in conclusion I will just say this, from what I have heard offered here: Speculation helps both the producer and the consumer. As an illustration of that, I will cite just one little instance of my own experience. Representative Harry Rhodes, who represents his district in Kansas in the legislature

at Topeka, operates the Colony Elevator at Colony, Kans. It is a stock company, composed of about 10 representative farmers in that community. He called me some 30 or 60 days ago over the phone while I was active on the trading floor of the board of trade and our market was declining each day. He said, "Russell, I have a chance to buy one carload of wheat here to-day from a farmer who has been holding his wheat for $3. What can I pay for it?" I said, "Wait a minute, Harry. Let me see what the market is." I stepped out into the pit and noticed the different delivery months and went back and said, "Harry, I will give you so much if you will ship that car in promptly." He replied, "You sell for me 1,000 bushels of wheat for May delivery and I will buy this car of wheat from this farmer and ship it in to you later on consignment, and when it gets there you buy in the 1,000 bushels of May wheat and I will be protected against further loss in the transactions." He added, "I am afraid to buy at this price and consign without hedging, for I think the market is going down."

Now, I claim that in that transaction the producer benefited by the privilege of hedging on a keen, acute, active market that was ready and receptive for me to make a bid to Rhodes.

How does the consumer profit by that situation? At the same time over the telephone he said, "Russell, I am loaded up on flour. I bought two carloads of flour 10 days ago and the market has been declining every day. When that flour gets here I will be unable to sell it without great loss unless I charge the farmers a profit over what I paid for it at the high price a week back." I replied to Rhodes, "Hedge your flour purchase, sell May wheat against the flour." He said, "A good idea. You sell 2,000 bushels of May wheat and I will sell this flour out when it gets here on the basis of what wheat is worth then; the flour will be quoted lower when it gets here." Rhodes sold his flour, distributed it to his community, to the consumer, and when he got through he called me up and said, "Buy in the 2,000 bushels of May wheat." I bought it in, and sent him quite a nice little check as a profit on the May wheat transaction, and he, as it was his intention, distributed that profit to the consumer in the lower price of the flour when it reached Colony.

I bring that instance to you to illustrate how hedging in wheat through speculative tendencies makes a keen, acute market, and protects both the producer and the consumer.

Now, gentlemen of the committee, just one more example——

The CHAIRMAN (interposing). When did this transaction take place?

Mr. RUSSELL. Three months ago.

The CHAIRMAN. What was the cash premium then?

Mr. RUSSELL. I imagine the cash premium over May then was anywhere from 15 cents to 25 cents a bushel.

The CHAIRMAN. It was his intention to deliver in May?

Mr. RUSSELL. His original intention was to sell May wheat and deliver it.

The CHAIRMAN. I understand. He was to deliver in May?

Mr. RUSSELL. Yes, sir; in the May option.

The CHAIRMAN. If that transaction had been carried out what would have been the profit or the loss? The spread would disappear?

Mr. RUSSELL. In answering your question I will show you the entire transaction if you like.

The CHAIRMAN. All right.

Mr. RUSSELL. That wheat came in. He bought it.

The CHAIRMAN. At a 15-cent premium?

Mr. RUSSELL. He bought the car of wheat from the farmer, less the freight and, perhaps, 5 cents a bushel profit. I do not know really what his profit was, but we will take that as an example.

The CHAIRMAN. On the then market?

Mr. RUSSELL. On the market the day he telephoned me. When the wheat got in, cash wheat had suffered practically the same decline, in the same proportion, as May wheat had declined that he had sold.

The CHAIRMAN. Oh, no. It declined to the level of future price for May delivery.

Mr. RUSSELL. Excuse me; but no, sir. The wheat, however, was delivered.

The CHAIRMAN. Oh, well, I understood you to say he was to deliver in May; that he hedged his wheat for May, and by May the spread disappeared.

Mr. RUSSELL. You have the wrong conception of the idea I am trying to give you. He consigned to me within 10 days the car of wheat he bought.

The CHAIRMAN. What was the premium in 10 days?

Mr. RUSSELL. The same premium as on the day that he had hedged over the phone. There was practically no difference.

The CHAIRMAN. It had been narrowing down?

Mr. RUSSELL. Oh, just 1 to 2 cents.

The CHAIRMAN. When May comes, there will be no spread?

Mr. RUSSELL. Practically none, as a rule. But now cash wheat——

The CHAIRMAN (interposing). I am referr ng now to the situation if he had carried out that transaction as he intended and delivered it in May.

Mr. RUSSELL. He would have been a very poor grain man to have done as you suggest.

The CHAIRMAN. I understood you to say that was what he intended to do.

Mr. RUSSELL. No, sir. You have got a wrong idea of what I intended to convey.

The CHAIRMAN. If he had been in the same fix as some gentlemen in Iowa, had no cars to ship it, he would have held it.

Mr. RUSSELL. The average grain man on finding out he was not going to be able to get cars and decided that he was going to hold the grain indefinitely, would have taken off his hedge or disposed of his wheat in some way without taking further loss. He would not sit back and let it get away from him.

Mr. TINCHER. He sold out his hedge the day the cash wheat got there and then went and cashed out for July and bought in the option to May?

Mr. RUSSELL. At the same time. His loss, except for 1 or 2 cents difference, was the same as the profit on his hedge in May wheat. His hedge was there and he was protected.

The CHAIRMAN. After all we want to be fair. I fully agree with you in many things you have said, but I want the matter made clear. While I am not opposed to hedging, yet I want it understood that at times it will operate against the hedger.

Mr. RUSSELL. It has at times operated against me.

The CHAIRMAN. Well, against anyone who hedges.

Mr. RUSSELL. At times, yes. But the law of averages on the matter of protection given is what the average grain man would have, where it usually protects him, even though at times it may not do so.

The CHAIRMAN. I think that is a fair statement.

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. But I do not think it should go into the record uncontradicted that in every instance it is absolute insurance.

Mr. RUSSELL. No, sir.

The CHAIRMAN. Like if you take out an insurance policy on a house.

Mr. RUSSELL. No, sir.

The CHAIRMAN. There are instances where it works out against either side and is not an absolute insurance against loss.

Mr. TINCHER. The chairman said to the last witness that the bill did not seek to protect all speculation and would have no force and effect in certain ways, and that is a principle I think anyone can agree upon. But I do not think anyone should advocate a bill that does not limit speculation, yet there are more ways of limiting speculation than by putting an arbitrary number of bushels that any one individual or firm can deal in. I have held that you can not limit speculation by saying to a certain man that you can not speculate. I do not think you can limit speculation by saying a certain class of men could not buy grain or could not buy more than a certain quantity. But any bill that may be passed must limit speculation in a general way and limit it to what may be termed legitimate speculation, if there can be any such thing. It has been tried in other countries. It is not an entirely new subject as far as the world is concerned. Perhaps you are familiar with the fact that Germany attempted to wipe out speculation altogether in food products.

Mr. RUSSELL. Yes; and they had to come back to it.

Mr. TINCHER. And they did not wipe out all the evils that existed in the market at the time they attempted it. They went into it, and then the public liked the old system with some of its evils better than the system they offered.

Do you think that for legislation to have the name of being constructive it should attempt to limit the quantity of grain that any one man can handle?

Mr. RUSSELL. No, sir.

Mr. TINCHER. Do you think it should attempt to limit the class of men that deal in grain, or that it could do that?

Mr. RUSSELL. No. Congressman Tincher, while in theory that sounds well, yet in practice I do not know how you could word a law that would draw that line.

Mr. TINCHER. You can not word a law to draw such a line because the Constitution would not permit us to say that one man can not deal in grain while another man can. As to the elimination of puts and calls in Kansas City——

Mr. RUSSELL (interposing). They are eliminated.

Mr. TINCHER. You have eliminated them yourselves?

Mr. RUSSELL. Yes, sir.

Mr. TINCHER. Why?

Mr. RUSSELL. As we thought it would have the effect that you now think it would have to drive out the incompetent speculator.

Mr. KINCHELOE. Has it done it?

Mr. RUSSELL. To a certain degree, I personally think it has.

Mr. KINCHELOE. They are still dealing in puts and calls in Chicago and St. Louis and several other places, aren't they?

Mr. RUSSELL. There is just one market I understand that does it, and that is Chicago.

Mr. KINCHELOE. No, St. Louis is dealing in them, so the president of the board who was here the other day said.

Mr. RUSSELL. Officially do they recognize it?

Mr. KINCHELOE. He said it would decrease their business down by 15 per cent.

Mr. RUSSELL. I was not here and did not hear that testimony.

Mr. KINCHELOE. Puts and calls have a tendency to produce overspeculation, don't they, to create speculation?

Mr. RUSSELL. If you will excuse me from answering yes or no to your question, I would much prefer that those dealing in puts and calls be called on to answer, a man who is entirely familiar with that subject, for I might give you a wrong impression. I know from a moral standpoint as a member of the Kansas City Board of Trade the influences there, at least I think so. But that is merely from what others have told me. I have never dealt in them and my firm has never dealt in them.

Mr. KINCHELOE. A firm that does handle them charges a commission, where it is permissible on a board of trade?

Mr. RUSSELL. Yes, sir; I so understand.

Mr. KINCHELOE. They handle them the same as they handle futures?

Mr. RUSSELL. I understand so. They formerly handled them in Kansas City and charged a commission.

Mr. ASWELL. What do you think of this Tincher bill?

Mr. RUSSELL. I recommend highly the bill as drawn with the amendments suggested, and as I understand from yesterday's testimony they are apparently agreeable to the maker of the bill. I mean the list of suggestions and amendments that have been offered by Mr. Wells, of Minneapolis, and President Griffin, of the Chicago Board of Trade. I think if we gentlemen, and I mean collectively, could get together on a list of amendments as they have been offered we could submit a bill to the Congress that would bear your indorsement as well as, perhaps, that of all the representative exchanges.

The CHAIRMAN. To what extent would that limit or restrict speculation in any bill that you might suggest?

Mr. RUSSELL. I think the first step in the right direction in a proposed trial bill would be the elimination of these indemnities, so called. That would eliminate, Mr. Chairman, a certain type of speculation that we would be glad to get rid of in our markets.

The CHAIRMAN. But that is only a small part of the speculation, isn't it, and that has already been eliminated from your exchange?

Mr. RUSSELL. Well, we feel it indirectly in our exchange. In other words, I think the criticism of speculation comes from the incompe-

tent speculator who loses from $50 to $100 or within $500. That gets back, you might say, to his family, and his family criticizes his experience on our market. If we could eliminate that element of speculation I think the exchanges would join with you. But let us not draw a law that will eliminate the experienced speculator, who has proven to be an asset to our market.

The CHAIRMAN. Also bear in mind that if this committee reports a bill it must defend that bill when it gets on the floor of the House and be able to state to what extent it does restrict the operations on the exchanges, the dealings which are quite uniformly condemned, whether rightly or not.

Mr. RUSSELL. In answering that question I regret exceedingly that the Members of the Congress can not enjoy the privilege of hearing this detailed information explaining the workings on our board of trade as it has been explained to you gentlemen, for I feel if the Congress as a body could hear the statements that have been submitted here during the past two sessions we would have many converts in your honorable body that we have not now.

Mr. TINCHER. What you mean is that if the average man who is uninformed on the subject could properly understand it he would have a different impression and would approach the subject from a different standpoint. We had a pretty good example of that the other night when we had a meeting of the Farmers' Union. The members were asked if they favored doing away with hedging. Some fellow would say, "You bet I do. I want to put that thing out of business. It is nothing but gambling." They would be asked, "Do you believe in letting the farmer sell his wheat for future delivery?" And the reply would be, "Oh, yes." Another question that was asked, "Do you favor letting the fellow who buys the farmer's wheat sell for future delivery?" and the answer was, "Oh, yes." And yet they want to get rid of the hedge.

Mr. RUSSELL. If you will permit me, I will say that within the last year I have visited 200 towns in Kansas and have called on that many grain dealers. The most of them were farmers' elevators, equities, and the like. Others were independent dealers. I was soliciting business from those firms to ship to our terminal market at Kansas City. I covered the territory in an automobile with our traveling representative. I am pleased to say, gentlemen, that every farmer elevator that I visited and had the opportunity of meeting the directors, the officers, and the managers, I think we were able to convince them of the legitimate and reasonable side of our board of trade. And as the result of that visit in Kansas my business has more than doubled by reason of those men selling their grain and hedging it through me. Prior to my visit I believe they took the position of speculators themselves, and bought grain and carried the load, waiting for the empty car, and then consigned it, and as a rule the most of them who did not hedge are now financially embarrassed.

The CHAIRMAN. Let us understand each other. Boards of trade and exchanges are not on trial here—at least, no member of this committee has characterized them as thieves or anything of the kind.

Mr. RUSSELL. I did not mean to convey the idea, nor do I want you to assume that that is what I said, Mr. Chairman.

The CHAIRMAN. Let us get away from that.

Mr. RUSSELL. Certainly.

The CHAIRMAN. Let us find out what it is necessary to do by way of legislation. Is there anything wrong about the present practices of the exchanges? Is there anything that Congress can do to improve matters?

Mr. RUSSELL. Pass such a law as will——

The CHAIRMAN (interposing). Speculation is one of the questions under consideration. Some people characterize it as gambling. It does not make any difference what you call it, but I do not see very much distinction between the two terms, speculation and gambling. But let us consider whether this speculating or gambling is to be done away with, and if so, to what extent. Is there any wrong in it or remedy for it, or shall it go on as it has been going on in the past, to be left open to everybody to speculate as he sees fit?

Mr. RUSSELL. It is a poor way to ask a question to ask another one, but——

The CHAIRMAN (interposing). That question may be answered very readily. Do you want it restricted or to go on unrestricted?

Mr. RUSSELL. Do you not agree from the evidence submitted here that the speculator is necessary?

The CHAIRMAN. Oh, I have said that a number of times. I agree to limited speculation, but what shall be done to restrict it?

Mr. RUSSELL. You fully agree that the speculator is necessary for a broad, keen market?

The CHAIRMAN. Yes; we will agree to that. But to what extent should speculation be allowed? Let us confine ourselves to the question.

Mr. RUSSELL. I will answer it, and then will ask you a question and ask you if you will please answer it.

The CHAIRMAN. I want to get your opinion.

Mr. RUSSELL. I say, have it unlimited as much as possible in order to make the market as broad as possible. Our first step to eliminate the speculator will be to do away with the indemnity.

The CHAIRMAN. We agree on that so far. What are the other restrictions you would suggest?

Mr. RUSSELL. The other restriction is the private-wire discussion that we have had.

The CHAIRMAN. That is only a small part of it. As I have stated before, that is only a little quarrel among your members.

Mr. RUSSELL. It may be small in your opinion, but it is great in mine.

The CHAIRMAN. I do not think the exchanges should come here with their linen and have us wash it for them. That is a matter in the exchanges. Let us do away with the discussion of that subject.

Mr. RUSSELL. If you will leave this private-wire matter to the boards of trade or exchanges they will properly handle same.

The CHAIRMAN. I think the private wires may serve a useful purpose, but they should be restricted.

Mr. RUSSELL. If you will leave that matter to the exchanges they will handle it to your entire satisfaction.

Mr. TINCHER. Is there any quarrel among the members of the exchanges over the private-wire business? I notice the chairman indicated that in his question and I would like to know something about it if there is any quarrel.

Mr. RUSSELL. I never saw these different organizations so united on legislation as they are on this bill.

Mr. TINCHER. Have they any quarrel among themselves about the private wires? The chairman has suggested that there is some dirty linen being brought here to be washed by the committee. If that is true I want to know about it.

Mr. RUSSELL. I know of no quarrel between the exchanges as to the private wires.

The CHAIRMAN. The question is that one with a private wire has an advantage over one who can not lease a private wire.

Mr. RUSSELL. Just as much as is the telegraph an advantage over the United States Mail Service.

The CHAIRMAN. Certainly. And for that reason there is some contention. But what is the other restriction? We both agree that there be some restrictions, and now what are they?

Mr. RUSSELL. We have agreed so far.

The CHAIRMAN. Is that the only restriction you have to suggest?

Mr. RUSSELL. That is the only restriction you are asking for in your bill, as I understand it?

The CHAIRMAN. That is your restriction that you suggest?

Mr. RUSSELL. I think we have gone as far as we should go at this time.

The CHAIRMAN. I think there are some people who want all sorts of restrictions.

Mr. RUSSELL. What do you suggest?

The CHAIRMAN. One suggestion is that we should limit the number of bushels that may be bought in excess of requirements.

Mr. RUSSELL. In answer to that I will say that it would narrow the market and work against both the producer and the consumer.

Mr. TINCHER. What is meant by a certain number of bushels "in excess of the requirements"? What does that mean?

Mr. RUSSELL. I did not get that question.

Mr. TINCHER. I am asking the chairman, as he made that statement.

The CHAIRMAN. I should say that the miller who grinds 100,000 bushels of grain simply requires 100,000 bushels, and if he buys in excess of that quantity he would be going beyond his requirement.

Mr. TINCHER. Suppose he is not a miller, then what about it?

The CHAIRMAN. If he does not require grain he would not be entitled to any.

Mr. TINCHER. Would not you let him buy any?

The CHAIRMAN. If you put a limit of 100,000 bushels he could speculate to that extent only.

Mr. TINCHER. There was some testimony in the other hearings in favor of a bushel limitation, and I gave the suggestion considerable consideration myself but came to the conclusion that I did not think it could be done.

The CHAIRMAN. During the war there was a limitation put on the number of bushels that could be traded in.

Mr. ASWELL. How would that help anybody?

Mr. CLARKE. It would not under ordinary conditions.

The CHAIRMAN. What was that question?

Mr. ASWELL. How would that help anybody?

The CHAIRMAN. The question is whether you should permit speculating in grain.

Mr. TINCHER. My contention is that my bill prevents speculation to such an extent that it could not be manipulation. I may be entirely wrong but that is my view. We have all heard this testimony and I can not say what the impression is that may have been made on the individual members of the committee, but that is what is in my mind.

Mr. RUSSELL. Mr. Chairman, if there are no further questions I want to thank you for the time you have given me, and to apologize for having run over your time limit.

The CHAIRMAN. Before you retire let me ask another question or two. What is your opinion of the provision in the bill requiring a record to be kept of transactions?

Mr. RUSSELL. Without taking up your time to give a fuller expression I will say that I think the opinion expressed by President Griffin of the Chicago Board of Trade is my opinion. That is, if we can have such records and they will not be exposed to our competitors, which would be wrong. Let them be kept intact for the Secretary of Agriculture, or whoever he may designate to investigate them later. I think our exchanges could work out something along that line.

The CHAIRMAN. To what extent would that restrict speculation? What is your remedy for speculation? Is that the proper remedy or is that sufficient in your opinion?

Mr. RUSSELL. Indirectly I think that is one means of stopping a certain class of speculation. There is sometimes an element in speculation that is fearful of their acts being found out, it being found out that a man is speculating.

The CHAIRMAN. There is no question but that publicity is a very important feature of the bill. I think that is probably the most important feature. But to what extent will it affect speculation? If a record is made public as to the transactions of certain big dealers would that in any way affect speculators? Or would they continue to buy in large quantities.

Mr. RUSSELL. I think it would be an injustice to the operator to to publish his transactions. I would not like for my transactions, nor do I believe you would like for your transactions, to be the subject of publicity of the kind you speak of unless we are found to be acting illegally or wrongly.

Mr. TEN EYCK. May I ask a question in relation to your question in regard to limitation?

The CHAIRMAN. Certainly.

Mr. TEN EYCK. Is either the witness here now or any other gentleman who has appeared heretofore willing to give us an intelligent answer as regards just the amount of grain that has actually been sold, within their knowledge, for actual delivery?

Mr. RUSSELL. Mr. Congressman, I give way to Mr. Wells, of Minneapolis, to answer that question.

Mr. WELLS. Well, that is a very hard question to answer, because you do not know the details of the individual transactions of the various members in the grain trade. But I can say this, that in the case of some of my own companies we have delivered as much as

3,000,000 bushels in Minneapolis at one time on contract. If that answers the question I give you that information, and I can only give you from my own experience.

Mr. TEN EYCK. That answers that question. I intended to say that from actual experience it exceeded 100,000 bushels by a great many hundred thousand bushels, and here it went into the millions of bushels.

Mr. TINCHER. The chairman made a suggestion awhile ago that is pertinent. No man ought to introduce a bill that he can not defend on the floor of the House should he secure the recommendation of the committee; nor should he even introduce a bill that he can not defend before the committee. And after hearings are held the bill should be so drawn that he can freely and fully defend it on the floor of the House.

Mr. RUSSELL. I agree with you.

Mr. TINCHER. Let us suppose for the sake of the argument that my bill is a law, and let us say there is some manipulation of the grain market and that the price of wheat at Kansas City fluctuates 10 cents a day.

Mr. RUSSELL. That would be 70 cents a week.

Mr. TINCHER. Yes; that is the way it would figure out, but let us just suggest 10 cents a day. That is what ruins my people.

Mr. RUSSELL. I agree with you and it ruins me.

Mr. TINCHER. It ruins the farmer and has a bad effect generally on the situation. Let us suppose that this bill is a law and that the Secretary of Agriculture goes to Kansas City and he there sees records of some transactions that he thinks caused the fluctuation and that I might think caused it. He says to you, "You desist from this practice. You stop that man. He can not come here and sell wheat that way and manipulate the market." Your exchange would stop that forthwith, wouldn't it?

Mr. RUSSELL. We would be required to do it.

Mr. TINCHER. You would do it. You would not take any chance of your designation as a market being withdrawn?

Mr. RUSSELL. We would be glad to do it at Kansas City, to do whatever the law requires us to do.

Mr. TINCHER. That is my idea of the way that perhaps the law will limit speculation. Another proposition is that if we discover through a keeping of the proposed records and the experience of the farm bureaus and these other organizations, that hedging is not proper, and the time comes that it is possible to gradually get a system of marketing whereby the producer can sell to the consumer without any speculation in the trade, whey then will be the time to pass such a law. But I hold to the theory that we ought to pass some law now to take effect at this time and not wait two years, as advocated by some in order to figure out how to eliminate speculation entirely. Let me say that I have as high a regard for a gentleman who appeared before this committee at our former hearings as I have for anybody, and he advocated doing away with hedging and doing it right away. He came from your city, Mr. Russell; he is a practical man, a real business man, and his name is Moses. I am going to ask you, Mr. Chairman, for the benefit of the members of the committee who did not get to hear Mr. Moses's testimony before, to insert his statement,

which is very short, along with the statement of his Kansas City neighbor and friend on this subject. I regard Mr. Moses very highly, but I did not figure that I wanted to sponsor a bill like he favored, because he was too much alone. He advocated doing away with futures.

Mr. RUSSELL. Does he now?

Mr. TINCHER. He did then.

The CHAIRMAN. Without objection it is ordered that the statement made by Mr. Moses and printed in our former hearings shall be printed in the hearings now being held by this committee, and at the end of Mr. Russell's statement.

Mr. KINCHELOE. Does your board of trade forbid taking into your membership the members of cooperative organizations?

Mr. RUSSELL. No, sir; we have a number of cooperative associations represented by active members at the present time. We have posted on the board of trade now another application for membership made to our board of trade from an equity organization.

Mr. KINCHELOE. Those members of your board of trade who are members of cooperative associations would distribute their profits among the members of their associations, and would that be against the rules?

Mr. RUSSELL. According to our rules as at present it would be a violation.

Mr. KINCHELOE. It would be the same way in St. Louis.

Mr. RUSSELL. I am not allowed to pro rate my profits to the shippers.

Mr. KINCHELOE. What is your objection to it, and I am asking for information.

Mr. RUSSELL. It would mean an immediate breaking down of our institution that we have spent so many years in bringing up and policing so thoroughly.

Mr. KINCHELOE. If I were a member of your board of trade and also a member of such an association and I were to distribute my profits among the members of the association I represented how would that break down or impair the efficiency of your board of trade?

Mr. RUSSELL. If you were allowed to do that then the Russell Commission Co. as a commission firm would be granted the same privilege, of prorating to its 40 shippers the commissions they had obtained from them during the year. And continuing further, if I were permitted to prorate to my shippers, as you would be able to prorate to your shippers, my competitor, who is also a member of the board of trade would issue a circular and say, "I will prorate more than the Russell Co. prorates," or the Equity Co. prorates, and we commission fellows would be doing business at a loss.

Mr. KINCHELOE. You would be in competition?

Mr. RUSSELL. We would be in competition to such an extent that within, I will say, a year the most of the commission firms would be financially embarrassed and would be out of business because of their zeal to obtain business.

Mr. TINCHER. Do you think a farmer would join one of these exchanges just to get his pro rata part of his commission back, and that other companies would have a tendency to hurt all of the business of the Russell Grain Co.? Do you think the farmer would join just for that little difference?

Mr. RUSSELL. I do not and am not fearful of it at all. I might say frankly that our board of trade and marketing, on account of depreciation of values in grain and other commodities, are blamed for a whole lot of things that we are not responsible for. Perhaps the farmer goes direct to his marketing place and through agitating a remedy for such evils this kind of legislation is framed up locally, and we are trying to handle it in a practical way and not theorize on the subject.

Mr. KINCHELOE. Has that question ever come before your State legislature?

Mr. RUSSELL. Yes, sir.

Mr. KINCHELOE. Did they ever take any action on it?

Mr. RUSSELL. Yes.

Mr. KINCHELOE. Did you defeat the bill?

Mr. RUSSELL. No; the bill has been passed and the governor has signed it.

Mr. KINCHELOE. To permit members of cooperative associations to join your exchange?

Mr. RUSSELL. Yes, sir.

Mr. KINCHELOE. Are they permitted under that law to distribute their profits?

Mr. RUSSELL. Yes, sir.

Mr. KINCHELOE. Are you attacking it?

Mr. RUSSELL. No, sir.

Mr. KINCHELOE. I understood you to say a while ago that there is nothing to forbid them to come in except that under your rules other members are not allowed to participate in your profits?

Mr. RUSSELL. If they apply for membership now we will perhaps have to change our rules to comply with the law.

Mr. KINCHELOE. No one has applied yet?

Mr. RUSSELL. No. The governor signed the bill within the last 10 days, I think.

Mr. CLARKE. All stock exchanges have very stringent rules about not splitting their profits?

Mr. RUSSELL. Yes, sir; and they should have.

Mr. ASWELL. Insurance companies have it, too?

Mr. RUSSELL. Yes, sir.

Mr. TEN EYCK. It appears that practically your only objection to Mr. Tincher's bill is to the restriction in paragraph (b) of section 4 as regards people who he designates here as being given the privilege of buying and selling grain.

Mr. KINCHELOE. Free from tax.

Mr. TEN EYCK. Yes. After the words "enter into contracts for future deliveries" put in the words "meaning other than manipulators." How would that do?

Mr. RUSSELL. That would be something like that Minnesota law that was referred to here yesterday, I think, Mr. Chairman.

Now, Mr. Chairman and gentlemen of the committee, I want to thank you for the time you have allowed me, and for letting me go over the regular time for your adjournment.

The CHAIRMAN. I understand you are opposed to making public your transactions?

Mr. RUSSELL. I would be opposed to that; yes, sir.

The CHAIRMAN. There would be no publicity, then. How would that improve the present system?

Mr. RUSSELL. You do not understand me. I am willing to give that information to the legally constituted authority who would want the information, and it might be published afterwards.

The CHAIRMAN. Unless it is given to the public, of what value would it be?

Mr. RUSSELL. Let us not give it to the public at first, but give it to the Secretary of Agriculture, and if he so desires let him then through his legal authority publish the information.

The CHAIRMAN. I thank you.

Mr. WELLS. It has been my intention to review and consolidate the suggestions for amendment that have been made by the members of the grain trade. But as it is past time for recess now I will not take up your time for that purpose, but I would like to ask if you will permit me to submit a memorandum so that it may be placed in the record, and that will cover our views as to placing the bill in the shape to answer the purpose of the hedging market and at the same time satisfy the demand of the public at large.

The CHAIRMAN. Without objection, it is so ordered.

(The memorandum later submitted is printed, as follows:)

1020 MUNSEY BUILDING,
Washington, D. C., April 29, 1921.

Hon. GILBERT N. HAUGEN,
Chairman House Committee on Agriculture,
Washington, D. C.

DEAR MR. HAUGEN: Inclosed find communication in reference to the proposed amendment to the bill. As we understand, it is the purpose of the committee to incorporate the changes as a part of the hearing, so it will be available for the information of all interested.

I desire to thank you for myself and for the many other gentlemen who appeared before your committee, for the uniform kindness and consideration extended to us. We greatly appreciated it.

Respectfully, yours,

FREDERICK B. WELLS.

Hon. GILBERT N. HAUGEN,
Chairman House Committee on Agriculture,
Washington, D. C.

DEAR MR. HAUGEN: In accordance with permission granted me by the kindness of your committee at the close of the hearing, I submit herewith comment on proposed amendments and suggestions for amendments respecting H. R. 2363 now under consideration by your committee. The views herein expressed have as their objective cooperation by the grain exchanges of the country with your committee in framing legislation that will effectuate the purpose the committee has in mind, and at the same time produce legislation under which it will be possible for the grain markets of the country to be properly operated.

Section 4, paragraph B, line 1, page 3: Before the word "dealing" insert the word "feeding" and a comma; striking out the first "or," line 1, page 3; after the word "manufacturing," line 1, page 3, insert "or otherwise interested in."

These amendments are proposed by Mr. Tincher and it is our opinion that if they are incorporated as he proposes, it will be possible for the grain exchanges legitimately to function under the bill. Without them, in our opinion, the hedging market would entirely be destroyed and the marketing of grain practically disrupted.

Also, after the word "keep," line 9, page 3, insert "for a period of two years from the date thereof." The purpose of this amendment is obvious. As the bill stands, it will possibly require the permanent keeping of those records for generations.

I am advised it is customary to insert in laws of this kind a two-year period; this period is sufficient, inasmuch as it covers the entire period during which criminal statutes are in force, and these are the reasons for its being suggested here.

Section 5, paragraph A: After the word "grain" line 18, page 3, strike out the words "unaffected by local conditions." In addition there should be added at the end of paragraph A, in section 5, the words proposed, as follows: "The availability of recognized official weighing and inspection service and adequate storage facilities."

There can be no reasonable objection to the incorporation of this additional qualification for a contract market.

As pointed out heretofore, the present wording of paragraph B, section 5, is such as to require almost a physical impossibility on the part of the board of trade. The modification which has been suggested, which is that the paragraph be so modified as to provide that boards of trade shall require all members to deposit with the secretary of such board, under seal, duplicate copies of all confirmations of each and every trade entered into by the members whether in cash grain or in grain for future delivery, and that these records be held by the secretary of the organization subject at all times to the inspection of the proper and qualified representative of the Secretary of Agriculture, will make the bill workable in that the terms can be complied with. It is suggested that these records be kept for a period of two years, the same as the private records above provided for.

With regard to paragraph E, section 5, there is a diversity of opinion in the grain trade on this subject, and very great difficulties exist as far as framing legislation is concerned. This would seem to be a matter peculiarly one the grain exchanges should be able to work out by themselves, having in mind the accomplishment of the salutary purpose your committee has in mind. It is, therefore, suggested that the solution of this problem be left to the exchanges with the assurance on their part now given that a satisfactory plan will be worked out and that immediate and conscientious effort will be put forth in that direction. These hearings have disclosed the reform sought to be accomplished by this paragraph.

Section 6, line 24, page 4: Strike out the words "sufficient undertaking" and insert in lieu thereof the words "proper assurance." The language stricken out would seem to be unnecessary, inasmuch as appropriate penalties are provided for elsewhere in the bill. The retention of the language might place an additional burden on business that would produce no beneficial results. All of the said section after the word "requirements," line 25, page 4, should be stricken out, and in lieu thereof should be inserted the amendment which your committee is considering, which we understand is a modification of the similar provision in the so-called cooperative marketing bill now pending. The language of the marketing bill is changed so as to adapt it to the requirements of this bill. As we understand the proposed amendment, it makes a much more drastic provision than that in the marketing bill, but one that meets the requirements of effective administration of the provisions of this bill. We believe we can operate under the bill if proposed amendment is substituted for the part of paragraph 6 to which reference has just been made. Unless this change is made we believe the entire business of grain marketing would be seriously jeopardized. To act promptly we recognize is one of the powers the Secretary of Agriculture should have, and this proposed amendment gives him that power to the utmost degree, but there should be an appropriate judicial review, and the proposed amendment provides for that.

Section 9, line 17, page 5: After the word "record" insert "as hereinafter provided." Line 23, page 5, after the word "transaction" change the semicolon to a period and strike the remainder of the section out. It is suggested that the language stricken out is unnecessary, inasmuch as the section already provides for very heavy penalties in case of violation of the provision of the law, and any violation of law can, of course, be immediately checked under the bill. In addition, it is suggested as improper to inflict a punishment upon innocent persons. The retention of the language would certainly tend to deter legitimate and responsible dealers and manufacturers from making contracts unless they had personal knowledge of all the circumstances surrounding the other party.

The spirit that prompts these suggestions and these comments is a desire to cooperate for the correction of abuses and the perfection of the grain marketing system. If the bill is amended as proposed, we believe it will be workable notwithstanding many of its severe provisions. I believe I can speak for the trade, that if the bill is passed with the changes proposed, the law will be one the boards of trade can reasonably function under and one that men in the grain business would endeavor to make a success.

Very respectfully,

FREDERICK B. WELLS.

Mr. WELLS. One word more. I think I must have misunderstood the chairman when he said this bill would permit unrestricted legislation.

The CHAIRMAN. Oh, no; I did not say that. I asked to what extent they would restrict legislation, they would have it done.

Mr. WELLS. I beg pardon.

The CHAIRMAN. The department has made certain suggestions and I wanted to bring those points before the committee and the witnesses, and wanted to develop the facts to try to find out the proper course to pursue.

Mr. WELLS. Very well.

The CHAIRMAN. I am not questioning the provisions in the bill before the committee, but trying to find out the proper thing to do. One suggestion is publicity, and another is limiting the number of bushels traded in, and so on. After we have gotten all the information before us the committee will sit down and write a bill and recommend it. I think the committee wants to pursue the best course possible. I would suggest to Mr. Tincher, who has charge of the bill, that he amend his bill along those lines as may be necessary. He will stand sponsor for it, and whatever is done will be according to our view of the best interest of all concerned. We want to develop every point fully and get that information into the record.

Mr. WELLS. In conclusion, I want to say on the part of those who will be directly affected by the operations of this bill that to my mind the regulation proposed is the most drastic, and yet the bill is the most rational that has ever been proposed. When you place a penalty upon manipulation, and manipulation is the evil in speculation, and that penalty is forfeiture of designation as a contract market, you are placing a penalty that is more severe than any ever suggested before, and I can not believe that it will accomplish the results you desire.

The CHAIRMAN. Well, it is provided for in various laws. I do not suppose there is anything that could be added to that in the matter of manipulation.

Mr. WELLS. Mr. Tincher has agreed to the insertion of certain testimony in these hearings.

The CHAIRMAN. That is up to Mr. Tincher and yourself.

Mr. WELLS. Under that agreement I would like to have the testimony given at former hearings included in these hearings, as follows:

Mr. Barnes, page 830; Mr. Gates, page 520; Mr. Hargis, page 697; Mr. Moore, page 385; Mr. Spalding, page 513; Mr. Anderson, page 410; Mr. Wallin, page 759; Mr. Crosby, pages 342–347; and Mr. Boyle, page 627.

We thank you very much for the hearing and feel that the situation has been very much clarified by it and that there will be much benefit therefrom.

Mr. TINCHER. I think there are two or three witnesses who want to say something before we close. And I want the Secretary of Agriculture to come before the committee. I do not know just when he can come. I want in the absence of any of the witnesses during the time that is left to be taken up in the consideration of the bills, to begin to morrow, and I am going to speak to Mr. Evans who has introduced a bill. I would like to take up the bills and go right into a consideration of them, because I do not want this matter to go over too long and not get a bill reported out. We are going to

start on another proposition on Monday, and I would like to get this matter out of the way.

Mr. KINCHELOE. Do you want to take up the consideration of the bills right away?

Mr. TINCHER. Yes, sir.

The CHAIRMAN. Will the Secretary of Agriculture be heard this evening?

Mr. TINCHER. I can not say as to that. We can go ahead and consider the bill section by section. Let us meet at 3 o'clock and take it up.

The CHAIRMAN. Without objection that will be done.

(Thereupon at 1 o'clock and 10 minutes p. m., the committee recessed until 3 o'clock p. m.)

AFTER RECESS.

At the expiration of the recess the committee resumed its session.

Mr. MCLAUGHLIN of Nebraska. In the absence of the chairman, the committee will come to order. I believe Mr. Evans is to be heard.

STATEMENT OF HON. R. E. EVANS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA.

Mr. EVANS. Mr. Chairman and gentlemen of the committee, I have been listening to much that has been said in the hearings, and I am going to avoid as much as I can any repetition and state as briefly as possible what I have in mind with reference to the subject.

The opinions expressed by Mr. Hock, Mr. Eckhardt, Mr. Thorne, and others, along the lines we have followed, I wish to emphasize.

The bill that I have prepared and which is now before the committee is H. R. 5228. In that bill it is not my intention at all to have attempted to stop hedging if in that hedging gambling is unnecessary. By gambling I mean what has generally been termed the buying by speculators.

The thing that I wish particularly to take the time to call your attention to is what is called publicity or the publicity part of it. In my bill, and I think it is the only one I have seen so doing, I have provided for taking the publication or gathering and dissemination of information as to grain conditions, grain markets, transportation, and all of the conditions which affect the price of grain, away from the private individual or party and putting it with the Secretary of Agriculture, making it his duty, in conjunction with the Secretary of Commerce and the Secretary of State, to gather that information both nationally and internationally, and in cooperation with the Postmaster General to publish it to the country. I have made the terms with reference to that quite general so that, it being a new duty for the Secretary of Agriculture, he would be at liberty in creating the method or the machinery by which the information would be gathered and disseminated.

I have likewise made it unlawful for any private individual to publish information until he shall have filed with the Secretary of Agriculture, at such place as the Secretary may designate, a copy of the information sent out.

I want to briefly give you the reasons for those provisions. Throughout all of the hearings, and I think in every publication that it has been my good fortune to examine, and I think it is recognized by everybody, the broker or dealer who gets at the earliest date the most accurate information, other things being equal, is successful. That being true, it becomes necessary in order to enable the producer to deal on an even plane that the man who buys or that the man who consumes or the man who stores wheat shall have, as I say, equal opportunities to get the information correctly, and my thought was that under this bill, information as to those things and conditions could be furnished to the public in a manner similar to that in which the weather reports are now sent out. I think that with a little bit of intelligence and investigation, perhaps, some invention, a method of sending out reports as to conditions, in a codified and brief way could be created so that every morning the man who goes in to sell his wheat will know what those conditions are, and the man who buys will know what those conditions are. By requiring the person who gathers private information to file it at some place which the Secretary of Agriculture shall designate, if the information is inaccurate the Government is in possession of the facts and can counteract its effect. That, I think, will do much to relieve a great many of the mistakes that are made by the producer when he takes his grain to market, as well as information which somebody else gives him.

Now, just incidentally to that, I wish to call your attention to conditions which I think every person in a farming community is familiar with. You go to a town where there are four or five elevators with a load of wheat, and every one of those elevators will quote exactly the same price. There is no choice.

If you move in a cooperative elevator, at once the price that is offered for grains at that village will be increased from 2 to 8 or 10 cents per bushel, while the villages for perhaps 5 or 10 or 15 miles to either side of that town will still adhere to the old prices. That is evidence to me that the farmer is not getting the fair deal they speak about.

The CHAIRMAN. Do you contend that that practice prevails throughout the country?

Mr. EVANS. I simply know that it prevails in Nebraska. I represent a district that is purely agricultural; it has no manufacturing interests, except those that are incidental to agriculture. I have known it to happen in my own immediate vicinity, and every other place I have known about.

The CHAIRMAN. There is no competition between the buyers?

Mr. EVANS. There is practically no competition. I will not say that is evidence that they all offer the same price; they may all have come to the same conclusion from the same information. But it is remarkable that as soon as you put in a cooperative elevator the prices at that point are higher than they are at points alongside, when the same competition existed before.

Mr. TINCHER. Mr. Evans, will your bill—you suggest it does not protect the hedge, and does away with the hedge, and I notice you do not have that part of your bill to take effect for two years.

Mr. EVANS. Do you want to know the reason for that?

Mr. TINCHER. Yes.

Mr. EVANS. I am not sure that that 2-year proposition is right. At the time that I began to study this question, the committee of 17 were working on their marketing scheme. The only reason I fixed that two years was because Clifford Thorne thought there ought to be two years for that reorganization. I simply put it in with the idea that the committee would study it, and I expected they would change it to what was right. Personally, I would have made it at once, because I do not have very much sympathy with the hedging system, or with the speculation on various boards of trade or exchanges.

Mr. TINCHER. No matter whether you have sympathy with that or not, you are not willing, yourself, to destroy it without something better?

Mr. EVANS. Just of my own private opinion, I was not willing to take that stand at all.

Mr. TINCHER. Now, under some of the other bills pending here there would not be anything to hinder or prevent Congress from putting in a provision to abolish the hedge two years hence, to take effect at once, would there?

Mr. EVANS. Not at all.

Mr. TINCHER. If the marketing system can be changed so that we can get along without the hedge?

Mr. EVANS. It could be made operative at any time at all.

Mr. ASWELL. In what respect, Mr. Evans, is your bill better than Mr. Tincher's bill?

Mr. EVANS. Well, Mr. Tincher is intending to retain the benefit of the hedge. Mr. Tincher's bill and the underlying principles of mine do not differ so much from the others. The chief difference I notice is this: I have fixed 10 per cent tax on transactions, and he fixed so much per bushel. There are more minor differences; I would not be able to tell you just what they are. But according to my understanding, they are very similar, and I think he would tell you that also.

Mr. KINCHELOE. The tax on future grain delivery would put the speculators out of business?

Mr. EVANS. That is what I intend. I think he is an element that is almost dishonest.

Mr. KINCHELOE. Do you think they ought to do away with hedging in legitimate grain deals?

Mr. EVANS. My bill would not do away with legitimate hedging on grain deals at all, unless gambling is necessary. I think gambling is bad, and if gambling is necessary I think the benefit is so slight it would not be worth keeping.

Mr. KINCHELOE. Your bill has a tax on actual delivery?

Mr. EVANS. My bill has no tax on actual delivery.

Mr. ASWELL. Do you think you would get buyers under your bill?

Mr. EVANS. Yes, sir.

Mr. ASWELL. Who would be the buyers?

Mr. EVANS. Any person in need of grain. You take the hedging proposition, and in every other business there is no hedging, and yet there are buyers and sellers and speculators in those commodities, and those who represent the boards of trade and exchanges, when you ask them why that is true, they tell you it is because there is not an open market in the other commodities.

Mr. ASWELL. The same thing applies to cotton?

Mr. EVANS. I think so.

Mr. KINCHELOE. If you do away with hedging, do you think it would destroy the present system?

Mr. EVANS. It would destroy the present system, but I do not think the cash sales are dependent at all upon the hedge, and I do not think a future deal, where there was to be delivery, would be put out of business by the bill.

Mr. KINCHELOE. Your tax would put it out of business?

Mr. EVANS. Not where there is a delivery, it does not affect it.

Mr. WILLIAMS. Mr. Evans, the argument was made here, and I thought rather forcibly, by Mr. Griffin and Mr. Wells that but for this system of hedging, or insurance as they call it, the margin to be charged by the dealers in handling the grain would be greater than it is now, and in that way the producer of the grain would receive less for his product; in other words, except for this insurance or hedging, they would have to charge a larger margin of profit to protect themselves. What do you say as to that?

Mr. EVANS. I ought first to tell you that I am not a farmer, and while I represent a farming community, I had not studied this question at all until I got into the Congress in the last session, and I have given it such attention as my time and ability would afford, and what I shall say is based on what I have concluded with the limited means at my command.

The first thing I have decided, and I think it is correct, is this: That the farmers are the producers of agricultural products, and are an exception from all other producers, and must bear the charge of his product, irrespective of its cost, from his machine or barn to the mill, or the place where it is taken by the consumer. That is not true of anybody else.

Now, there is this remarkable situation: Here are the men who for generations have gone on with this hedging project and this speculation. I have here the hearings that were held in 1914 on this same question, and in those hearings I have quotations from Charles D. Hamlin, made in 1892. It is the same thing, the same complaint; the same reasons are given then that are given here to-day as to the puts and calls.

Now, I mention that as an illustration. It is conceded that the men who are in the grain business are the cream of the intelligence of this country, backed by a great deal of its wealth. It is likewise conceded that they have at their side the best legal talent the country can produce, experienced in grain matters, and you can not find a single bill that they have ever offered at any place to correct the evils they recognize exist. Therefore, they come in to-day, Mr. Barnes, for instance, and other men, come in and say, "This machine we have created is so subtle that the intelligence of the lawmakers can not suggest anything that can handle it"; they suggest nothing, and I think whenever a thing man has created is so subtle and so strong that nobody can handle it, Congress ought to smash it.

Now, I will answer the question.

Mr. ASWELL. Most of these people representing the boards of trade——

Mr. SINCLAIR (interposing). Let us hear his answer to the question; you have not answered the question.

Mr. EVANS. I have not touched it yet.

Now, we have heard the farmer who used to sell without that, and I think, so far as our evidence goes, it demonstrates that they sold on as short a margin as they do now. You might say, replying to that, that that is not true. I can not tell; I do not know. But if what they say is true, it has created a margin, and here is the situation we have got: We have one of the leading businesses of this country resting upon the fact that it has to be supported by a number of men who are admittedly gambling, and one-half of those men go bankrupt. That was the statement made in answer to a question of mine the other day.

Now, if one-half of them go bankrupt, they have not got the insurance, because——

Mr. WILLIAMS (interposing). The way I understand the argument is that the legitimate dealers in grain have insurance, and that insurance is carried by the speculator.

Mr. EVANS. That is it.

Mr. WILLIAMS. Now, I would like to eliminate all that, if possible, without destroying the farmers' market. Now, the argument was made, and I think it is rather a strong argument, that under our present system of marketing to prohibit speculation in grain by others than the actual dealers would destroy this market throughout a good many months of the year.

Mr. EVANS. If they have got a machine—if their intelligence is such that they have got a machine that will actually insure something for nothing, don't you think that the other people in like business would take it up?

Mr. WILLIAMS. Well, do you think they have that machine?

Mr. EVANS. I don't think they have, but I can not prove that they have not.

Mr. KINCHELOE. Mr. Evans, you speak of going into bankruptcy. I understand 50 per cent of the speculators went into bankruptcy, but not the legitimate dealer, or the hedger.

Mr. EVANS. Let us get an actual case: A sells his wheat to the elevator, to B, 50,000 bushels or 100,000 bushels. The owner, or B, hedges all that grain in the Chicago market; the man in the Chicago market who sells that grain sells to the speculator, and that speculator is the one who carries this insurance. Am I not right?

Mr. WILLIAMS. That is the argument.

Mr. KINCHELOE. But under your illustration B would not go into bankruptcy.

Mr. EVANS. No, but the speculator. Who pays this insurance when he goes into bankruptcy? Now, then, this is interesting, because he is carrying it and when he goes bankrupt it must necessarily be——

Mr. KINCHELOE (interposing). Do you know of any instance where a man who did legitimate hedging went into bankruptcy?

Mr. EVANS. No.

Mr. KINCHELOE. The man in the legitimate end of the business is not protected; on the other hand, he is barred?

Mr. EVANS. I don't think that is true. Here is the proposition: If the statement is true that 50 per cent of the speculators who carry

that hedge go bankrupt, then there are 50 per cent that do not carry the insurance——

Mr. SINCLAIR. But suppose there is a fall?

Mr. EVANS. They do not put it up until after the fall.

Mr. SINCLAIR. Oh, I beg your pardon.

Mr. TINCHER. You would not advocate any law that would prevent any class of men from buying railroad bonds, and stocks, and steel bonds and stocks?

Mr. EVANS. No; I am not advocating a law that would prevent these men from buying wheat if they want to buy it.

Mr. TINCHER. They buy these stocks on the board of trade.

Mr. EVANS. I am not objecting to their buying wheat on the board of trade. I am objecting to their buying something that is not wheat.

Mr. KINCHELOE. Reverting to Mr. Williams's question, if by so doing they are paying the farmer more, and the farmer gets a greater price for his grain, what do you and I care about what becomes of the speculator? I am asking for information.

Mr. EVANS. That might be a question upon which people would differ. It is probably true, and has been suggested to me by people who are here representing the grain dealers—these men who are here representing the dealers—that these men who speculate, if we do not give them the grain to speculate on, they would go to something to speculate; and the conclusion suggested by that is that there are a certain number of men or individuals in the country who are going to be of that character, and that we might just as well use them as not. I do not think that any business profits by resting on what is vicious.

Mr. SINCLAIR. Is this not also true: That out of the chambers of commerce there is disseminated a lot of misinformation about the condition of the market, and they endeavor to induce in every community bids of a speculative character on the market?

Mr. EVANS. It is decidedly true in our country, and I think it is in yours.

Mr. SINCLAIR. It is in mine.

Mr. EVANS. And that is what I have got in mind when I require every private party to file with the Government information before they send it out. Here is what happens: For instance, when he gets his information to-day, he buys or sells as that information dictates he ought to; and to-morrow he sends it out to the people and at once he gets two effects, first the effect of his knowledge as to the market, but it is too late for the people he deals with.

Mr. TINCHER. You and I differ in our bills. We differ as to the details, but I agree with you fully that there should be the strictest censorship over the reports sent out. You, in your bill, require that he file a copy of that report with the Government. In my bill—I do not know whether I succeeded in doing it or not—but I endeavored to make the exchange of which he is a member responsible if he sends out anything untrue or false. I agree with you that in the end it is the same thing.

Mr. EVANS. I understand you and I, so far as the end goes, are not differing. It is simply the matter of getting the best end. My reason for taking it entirely away from them, except where they have placed it in the hands of the Government, is because the men who constitute these exchanges are human, and there are men in there

that are just like every other selfish man, and they themselves have never cleaned up a question until some of them have got bitten. And if you leave it to them it is a matter of discretion as to whether they are sending out proper information, and that is not exactly the thing to do, to give to the man who is dealing with the farmer discretion as to whether he is sending correct information; he is not a person without partisan bias.

Mr. TINCHER. I will tell you another thing that influenced me somewhat. We have tried through the Bureau of Markets to disseminate market reports throughout the United States.

Mr. EVANS. And they have not been efficient.

Mr. TINCHER. It has been demonstrated to my mind very thoroughly that it is impossible for the Government to compete with the individuals actually engaged in the business of disseminating information, even through the market reports. For instance—this is not criticizing the department—but the most flagrant and perhaps the most expensive misinformation that I know of that went out in the last six months went out from the Department of Agriculture last winter when they made a report of 29,000,000 bushels in one instance—made a mistake of 29,000,000 bushels. That was afterwards corrected. That is one instance to show that the reports were not correct. That depressed the market for some time and cost the producer a lot of money. It was an innocent mistake, and it was soon corrected. But it will cost a lot of money to send out these reports. My notion is to say to the chamber of commerce, "The reports that go out from your chamber of commerce must not be fake reports; they must not be misleading. They are interested in getting the reports out.

Mr. EVANS. If you could secure accurate and full reports and send them out before they are acted upon, but I do not see how you could do that.

Mr. TINCHER. How would your proposition ever be practicable, to make the fellow file with the Government a report before he sends it out? You could not go to the extent of saying that some Government official must O. K. that report.

Mr. EVANS. This is my theory—and it is only theoretical, because I have not tried it out, and it has not been tried out, except in the matter of the weather reports. They are sent out; we get them promptly. There are certain things that are understood in almost every office, and almost instantly they could be arranged and understood with reference to the grain reports. I would have certain places in certain cities like Chicago, St. Louis, Minneapolis, Omaha, New Orleans, and other large places where there are large markets where these reports could be filed.

Now, it is a very easy matter by telegram, to send a telegram that means much more than the simple signs that are used, and soon everybody would have the advantage of it.

Now, I have, in the bill, authorized an appropriation of such funds as are necessary for the gathering of that information.

Mr. KINCHELOE. Mr. Evans, suppose you did that—I am heartily agreed with you in getting this information disseminated as widely as possible; but how in the world could you instigate a service that would get this information promptly?

Mr. EVANS. If it is disseminated at the post office, just as the weather reports are.

Mr. ASWELL. Suppose they do not send out anything?

Mr. EVANS. Who?

Mr. ASWELL. The grain men.

Mr. EVANS. I am having the Government do it.

Mr. SINCLAIR. Is not the Government gathering much of this information?

Mr. EVANS. It is gathering much information, but the information is published in the crop report.

Mr. SINCLAIR. It is not published often enough to be of value to the farmer.

Mr. EVANS. That is true, and it is published with too much detail for the purposes that I have in mind.

Mr. SINCLAIR. You want to simplify it?

Mr. EVANS. I want to simplify it.

Mr. SINCLAIR. Dealing with what?

Mr. EVANS. Suppose that monthly or weekly there would go out an article which gave you the available supply; that gave you its location; its condition, and the international supply. Now, that would be supplemented by daily telegraphic reports which emphasized or took away certain things in that report, and which gave you the markets not only in this country but in the European countries.

Mr. TINCHER. Our Bureau of Markets does that very thing. I do not want to weaken your confidence in the Government disseminating information, but I want to call your attention to this: You have pointed to the Weather Bureau, and the Weather Bureau reports, and they do perform an important function. But there is no shipper of perishable goods that depends on the United States Weather Bureau for its protection. It depends on what? On the carrier that is carrying its goods, and they get their information from an entirely different source.

Mr. EVANS. You are confusing two things: I have cited the Weather Bureau's function as an illustration as to what and how it is done. You have to remember that for the accuracy of the report they rely on many things, and their conclusions may be inaccurate. Now, if the Government has gathered information that is accurate and it sends it out in the way the Weather Bureau does, the suggestion that you make would not have point.

Mr. TINCHER. I do not think they are inaccurate. I think the Weather Bureau will report a blizzard that will freeze a carload of potatoes at El Reno, Okla., as accurately as the Santa Fe railroad will, but the Santa Fe Railroad will get the report there in time to protect the potatoes, and if you wait for the Weather Bureau to make its report they will be frozen up tight before you can get the report.

Mr. PURNELL. Mr. Evans, assuming that you could get all this information and get it disseminated properly, how is that going to help a unit of buyers who want to sell a million and a half bushels of grain, if you have only got a million bushels?

Mr. EVANS. I am very glad of that question. I do not believe that any law that can be passed can create a market, and that is what you have in mind?

Mr. PURNELL. That is the point.

Mr. EVANS. Here is exactly what I think is involved: There are a great many questions—that is, quite a number of questions—which affect the price of the grain to the producer, or any other agricultural product. That is only one of them. The committee of 17, or the bill which Mr. Tincher has already introduced with reference to storehouses—all of those things have important elements in them. The only thing that the dissemination of this information will do is to give the farmer, or the person that is selling, or the person that is buying the same information that the grain exchange has. That is its only purpose, so as to put them on a level.

Here is what happens now: The dealer may not do it himself; he may do it through a reporter; but there is information sent out that is absolutely misleading, or it may be true as to facts, but late in its arrival, just as Mr. Tincher suggested as to the weather reports.

Mr. PURNELL. If it got there promptly, it would not insure buyers?

Mr. EVANS. It would not insure buyers, but it does let him see what the conditions at present are and will protect him in his supply.

Mr. PURNELL. That all leads to one question, which is the all-important question in this whole transaction to my mind, and that is this: Shall we retain or eliminate the speculator?

Mr. EVANS. Now, if I may, I will give you my opinion on that. I have listened to the men talking to you here, and when you asked them that question they say, "Yes; why when there is a seller there is always a buyer." That is not a fair inference from the conditions. Let us go into the exchange some day when the wheat is coming in, or the grain. Now, here is the speculator, and here is the buyer. The man who has the wheat to sell comes in and says, "I have 50,000 bushels or 100,000 bushels of wheat at $1.50." There are no buyers. He says, "I have 100,000 bushels of wheat at $1.48." There are no buyers. And subsequently it goes down to a point where some man who is a speculator figures it is below what it ought to be, and then there is a buyer. Now, when they tell you that man kept the price of that wheat up, they are in error as to the fact. That man or some other will always carry wheat at what is its value, less cost of storage, interest, insurance, and a profit. The speculator did not increase the selling price of that wheat because he only bid for it what returned him a sufficient profit plus the carrying charges above mentioned.

Mr. ASWELL. Now, wait a moment. If there was no speculator there, would he be able to sell at all?

Mr. EVANS. Yes.

Mr. ASWELL. But what about this case you have just supposed?

Mr. EVANS. Suppose the million and a half bushels, if there is nobody there to buy, the speculator would not be there.

Mr. WILLIAMS. How can you cure that situation by law?

Mr. EVANS. You can not cure it, because they will not buy until it gets so low that they have a carrying charge and a profit to keep themselves.

Mr. PURNELL. But it is represented to us that there is a group of men ready to deal in that extra 500,000 bushels and give liquidity to the market and to the values, where the farmer can sell his product. I do not know how much confidence you have in the testimony of Mr. Hoover, who appeared before this committee, but I have a great deal of confidence in it.

Mr. EVANS. I have great confidence in Mr. Hoover, but if you will look at his testimony you will see that he does not know anything about it from personal experience. Now, you go there and you buy it if it is below the value, where you could make a profit on it.

Mr. WILLIAMS. Now, can Congress pass any law that will change the natural law?

Mr. EVANS. You can not do it.

Mr. SINCLAIR. And isn't it a fact that much of the wheat remains in the country elevators and does not get to the place where it is sold until there is a demand from the millers?

Mr. EVANS. I think that is true. I suppose there is not 10 per cent of the corn raised in my district that goes off the farm at all—that is, as corn.

Mr. PURNELL. Mr. Evans, just for the purpose of getting it in this record, and for the purpose of calling the matter to the attention of the new members of the committee who were not here at the last hearing, I just want to read into the record some of the statements made by Mr. Hoover in answer to some questions I put to him, directly bearing upon the question of speculators. I am not going to read at length my question which provoked this first answer, but it was in substance this: Do you believe in the speculator?

Mr. EVANS. He does.

Mr. PURNELL. I said that.

Mr. EVANS. Well, he does. But he states, Mr. Purnell, that his information is not by experience at all, but it is what he has gathered rather theoretically, if you will look at his statement.

Mr. PURNELL. I would rather take the statement from a man like Mr. Hoover, who looks at it in a more or less unbiased way and from a more or less unbiased standpoint, in preference to these gentlemen who come here with a natural direct personal interest in the matter.

Mr. EVANS. Mr. Purnell, may I make a statement there, because your statement suggests it? I do not want to be understood as stating that these men who came here representing the grain trade are dishonest, or that they have not given us the best they have got. Some of them—and you can pick them out just as well as I can—have told you things that were not honest; they have dodged questions and evaded. But others are evidently as straight and honest men as you could pick up anywhere.

Now, what I have in that suggestion is this: That a chain is no stronger than its weakest link, and these men in the business world are connected up with men who are not entirely honest, and in doing business they have to do it on the plane of the lowest men doing that business or suffer loss in doing business.

Mr. CLARKE. I doubt that statement.

Mr. ASWELL. I doubt that.

Mr. EVANS. Or they suffer loss in doing business.

Mr. ASWELL. You do not want to say that the men do business on the lowest plane?

Mr. EVANS. I said, or suffer loss.

Mr. JONES. If you apply that rule you make a crook out of every man in the same business.

Mr. EVANS. No; because there are a great many men who do business and do it on a higher plane than their fellows, because they are willing to suffer a loss.

Mr. ASWELL. You do not mean to say that these men suffer loss?

Mr. EVANS. They suffer loss compared with the others.

Mr. WILLIAMS. Mr. Evans, a statement was made and reiterated here that the margin of cost between what the farmer receives and what the consumer pays for grain products in this country was less than in any other country in the world.

Mr. EVANS. I know that remark has been made.

Mr. WILLIAMS. In other words, that we have the best marketing system in the world, both for the producer and the consumer. What have you to say about that?

Mr. EVANS. I have nothing to say about it at all. I have no information about the matter, but my thought is that it ought to be better, because we have better transportation.

Mr. WILLIAMS. Well, if we have the best system in the world, don't you think we ought to be careful and not be too radical until something else is substituted?

Mr. EVANS. Of course, if you expect to do that there will never be any change.

Mr. WILLIAMS. Yes; I know that.

Mr. EVANS. I have no hesitancy in saying that any committee in Congress should not make any changes that will be revolutionary or unduly disturb conditions.

Mr. CLARKE. I got here too late to hear your beginning; what is your position on the Tincher bill in regard to the changes——

Mr. EVANS. I was for this bill, but having one of my own, which I was behind with, as I only introduced it a few days ago, I do not know that I am for it entirely; I have read it over, but to suggest changes, I am not competent to do that, and perhaps would not be even if I had studied it closer.

Mr. ASWELL. You said you are not a farmer. Are you a grain dealer?

Mr. EVANS. No, sir; except this: In the little village in which I live there is a little elevator—a farmers' elevator—and I own three shares of stock in it. I might say that is a farmers' elevator that has been in business for two years close to Sioux City, which is a few miles away, and is a grain market, and yet that elevator has increased the price of grain to the farmers and earned a 10 per cent dividend, 5 per cent of which was paid to the stockholder, and 5 per cent went to repairs.

Mr. TEN EYCK. Do you know how it increased the price, if there is a general level in the country?

Mr. EVANS. I can only answer this, that they are willing to do business on a smaller profit.

Mr. TEN EYCK. Do they hedge?

Mr. EVANS. No, sir; they do not permit it in that elevator

Mr. CLARKE. About how much difference per bushel does that represent?

Mr. EVANS. I do not know just how much it represents. But in the village of Homer, seven miles away from there, it varied from three to eight cents, depending on the grain in the market.

Mr. ASWELL. You say that elevator does not hedge. How does it get out at the top of the market?

Mr. Evans. I can not tell you, only this, that down in Mr. Tincher's State very few elevators hedge, and in Nebraska only 50 per cent hedge, and they are line elevators.

Mr. TEN EYCK. What Mr. Aswell wanted, How do they get out on the top of the market?

Mr. EVANS. I have not been at home, and do not know. That settlement was made last November.

Mr. KINCHELOE. You say 50 per cent of the farmers' elevators hedge?

Mr. EVANS. No, sir; I said 50 per cent in the State of Nebraska.

Mr. KINCHELOE. Do any of the farmers' elevators hedge?

Mr. EVANS. Some of them do.

Mr. KINCHELOE. How do they feel about it?

Mr. SINCLAIR. That is, in the Northwestern part of the country, many of them do.

Mr. KINCHELOE. Do the farmers' elevators hedge?

Mr. SINCLAIR. Yes, some of them, and the reason for that is chiefly that they do not know when they buy grain when they can ship it out. They simply have got to do it.

Mr. TINCHER. Only 14 per cent of our grain is hedged, but there is a different situation there, in that we mill a good part of our wheat, and we sell some for export, and then when the boys in Minnesota want to finish up some real fancy flour they come down and buy our wheat and ship it up there.

Mr. KINCHELOE. You don't think if we prohibited hedging entirely it would destroy the present system?

Mr. EVANS. No, sir. So far as it depends on speculation it would be destroyed.

Mr. KINCHELOE. Future trading?

Mr. EVANS. Yes, sir.

Mr. TINCHER. I will say this: I have been somewhat convinced from these hearings on this subject of hedging, that we are able to sell our wheat in Kansas on the card bid probably as the result of the hedge. I think the hedges have more effect on our wheat than a man would think if you just say we hedge 14 per cent. Our custom is this: I buy a carload of wheat from a farmer and do it on the basis of a card sent out this morning, and then to-night I wire one of the bidders and sell him the actual wheat, and load it on the car and deliver it and to-morrow I get my money.

Mr. TEN EYCK. That is to you a cash hedge to [illegible] in exte[illegible] because you sold the wheat.

Mr. TINCHER. We do not deal in futures.

Mr. KINCHELOE. Your idea is, if the othe[illegible] was n[illegible] mitted to hedge y[illegible] uld not sell your whe[illegible]

Mr. TINCHER. T[illegible] the conclusion I c[illegible] en I [illegible] to put it in the b[illegible]

Mr. SINCLAIR. [illegible] nds on who you [illegible] You [illegible] the actual miller.

Mr. TINCHER. [illegible] it they hedge.

Mr. EVANS. If [illegible] all, I think I [illegible] gh.

Mr. PURNELL ([illegible] g). On beh[illegible] Chr[illegible] Evans, I thank you for c[illegible] fore us.

Mr. TINCHER. I [illegible] on, will y[illegible] [illegible] mittee?

STATEMENT OF MR. T. C. ATKESON, WASHINGTON REPRESENTATIVE OF THE NATIONAL GRANGE.

Mr. PURNELL (presiding). Mr. Atkeson, please give your name.

Mr. ATKESON. T. C. Atkeson.

Mr. PURNELL (presiding). You appeared before the committee the ast time we had hearings here?

Mr. ATKESON. I think so. I have appeared before this committee so many times, I do not remember.

Mr. PURNELL (presiding). I mean during the last hearing.

Mr. ATKESON. Yes, sir.

Mr. KINCHELOE. What is your business?

Mr. ATKESON. I am, perhaps, at least so far as I know, the only real farmer who has appeared before this committee at this hearing. There may have been others at former hearings.

My business in Washington is the representative of the oldest farmers' organization—the National Grange. We are 55 years old. Some one said the National Grange is as old as the grain exchanges.

Our organization for a half century has been studying this question of marketing farm products, and incidentally have been opposed to all forms of manipulation and gambling. Somebody asked me the other day if I was against gambling on grain exchanges, and I said that I was opposed to gambling on grain exchanges because I was opposed to gambling.

But I appreciate, perhaps as some of the people who have been before this committee do not, some of the difficulties in legislating on this question. I think you gentlemen are beginning to appreciate some of the difficulties in attempting to legislate. It has reminded me throughout the whole discussion during the present hearings and those heretofore of being confronted with the same difficulty that a backwoodsman in my State of West Virginia is said to have been confronted with when he and his son were watching a deerlick one morning in a hazy, uncertain light, and the old man and his son got into an argument whether an animal that came from the deerlick was a deer or a colt, and after debating the question for some time he thought he could load his gun so that he could hit it if it was a deer, and miss it if it was a colt. In undertaking to preserve the recognized advantages of hedging we hit the colt and miss the evils that we know exist on the stock exchange.

So far as the dealing in futures is concerned, everybody deals in futures. I do not know of anybody who deals in futures more than preachers, and some of us would like to hedge against the other place.

Now, with all seriousness, this matter has concerned the farmers, and the farmers have been thinking about it and trying to ask about it, and so far as our organization is concerned, we have tried not to become radical. An organization that has lived 55 years has learned something by experience, and its leadership has learned something by experience. If it had not it ought to have been chloroformed when it was young.

And so it has considered this question that is now before the committee with a good deal of concern and at its last session in the city of Boston last November it passed this very brief resolution:

The Grange demands the enactment of such laws as will prohibit the gambling in all food products.

I think we can all agree unanimously that if there is gambling in the sense that men play cards for gain, that it ought to be prohibited.

Mr. ASWELL. Is hedging gambling?

Mr. ATKESON. That is a question. To my mind it is, but when I take the other side of it, it is perhaps justifiable gambling on the broad ground that all commercial transactions are gambling.

Just yesterday I went 25 or 30 miles out into Maryland to talk to a grange—out into Montgomery County, Md.—and talked to a group of about 300 farmers, as intelligent a group of men as you could find anywhere. I discussed this question at length. At the close of the meeting a young man came to me and told me of an individual in that section of the State that he happened to know about, who had accumulated a considerable amount of money and had been a grain dealer for a good many years, and last year, as usual, he engaged in grain speculation—grain dealing, and that he was to-day a practical bankrupt, having lost in his deals in the neighborhood of $150,000. Now, he gambled in futures, and the farmers who sold to him were the winners. There isn't any question about that. And every time anybody wins in a gamble somebody loses, and every time anybody loses somebody gains, as I conceive the term "gambling."

Now, when I say that all future dealing is in a sense gambling, I think it will be generally recognized as the facts in the case. If I have a thousand bushels of wheat in my barn at threshing time and I decide that I will not sell until next May, why, that is unquestionably a gamble.

I think I will tell this committee—because I am going to get down in a few words to the pending legislation—I think I will tell this committee: My father and I operated the same farm since 1832, and my father, being a careful man, kept a diary, and incidentally recorded the price of wheat at threshing time, and for more than 60 years he never sold a crop of wheat at threshing time; he sold it generally about the 1st of May. And last summer, while recovering from a hospital experience, I looked into those old diaries, covering a period of more than 60 years, and the average price of wheat between threshing time and the first of May was less than 8 per cent; that was, the farm price.

Now, in our office we are gathering some figures that deal with this question. One of my assistants is now at work in the Congressional Library, and we have dug up the Chicago daily papers back to 1860, and when these figures are completed, as they will be within the next day or two, it will show the price of wheat—the average price, for each month since 1860 on the Chicago market, as quoted in the Chicago daily newspapers. We are going to formulate those figures for whatever light they may give on this subject.

Now, then, just in a word, and I am through—and I do not want to take too much time of this committee. It seems to me that Mr. Tincher's bill has come as near to hitting the deer and missing the colt as any bill that has been prepared dealing with this proposition. and that seems to be what is puzzling all of us, how to preserve the good in the grain exchanges, the dealing in the futures, the certainty of a market every day at some price, and at the same time preventing the recognized evil that exists in dealing in futures.

Now, as to who pays the cost of hedging—and a hedging is gambling; there isn't any doubt about that. Somebody pays on the deal, and somebody wins or loses.

Mr. CLARKE. Excuse me a moment, but to go back to Mr. Tincher's bill, I did not follow you. Did I understand you favor Mr. Tincher's bill?

Mr. ATKESON. Yes; as near as I could analyze it. In my way, I said it came as near to hitting the deer and missing the colt as any bill that has been prepared. In other words, it comes as near to destroying the evils complained of and preserving the benefit from hedging as any bill could.

Now, it was stated the other day by one of the gentlemen before the committee that he thought Mr. Tincher's bill would prohibit hedging. That was a very nice point. If it prohibits hedging, it seems to me it should possibly be changed in its phraseology. I am not lawyer enough to determine whether that is true or not. But without we are going to completely revolutionize our commercial system, it does seem to me that the right of hedging ought to be preserved in whatever legislation may be enacted.

Mr. TEN EYCK. May I ask a question right there?

Mr. ATKESON. Certainly.

Mr. TEN EYCK. You made a statement that hedging is gambling; isn't it true, in fact, that hedging is not gambling; it is taking the feature of gambling out of the transaction to the man who hedges, but the gambler is the fellow who speculates and takes the hedge?

Mr. ATKESON. Yes; but the hedge would be impossible if it were not for the gambling factor.

Mr. TEN EYCK. Yes; for the gambling factor, but the hedging itself is not gambling?

Mr. ATKESON. Possibly not; neither is insurance, but insurance is a gamble.

Mr. TEN EYCK. That is a fact.

Mr. ATKESON. But the question or fact of gambling really exists. And we all deal in futures. A merchant who puts in a stock in his store——

Mr. TEN EYCK (interposing). Who is a bigger gambler than the farmer; he puts his seed in the ground and gambles that he is going to get a big crop?

Mr. ATKESON. Yes, sir.

Mr. SINCLAIR. You would not say that an insurance company is a gambler in the sense that a man who bets on a horse race is a gambler, because the insurance company works from known facts and things that are proven and takes those and works from them.

Mr. ATKESON. I want to make clear my opinion between a justifiable gamble and an unjustifiable gamble. Two men sit down and play cards and gamble. Neither one of them renders any service to the public. The insurance company gambles; they take a chance on how long a man will live, or how long it will be before a house burns, but now the insurance company, notwithstanding there is present the element of gambling, renders a real service to the public, and so hedging renders a real service to the man who hedges. Now, then, if there is that element of service in gambling, it seems to me justifiable gambling. If there is no service; if it is a pure gamble, it ought to be prohibited.

Now, I have doubt whether even pure gambling affects very materially the price of the commodity; that is, to the man who bets whether there will be a decrease or increase in price at a given date.

I think, last fall if one of you gentlemen and I had bet on the election that it would not have affected President Harding's majority, but we would have done no service; that would have been pure, unadulterated gambling, and that ought to be prevented by legislation, if possible. All of the dealing in futures, so far as gambling enters into it, does render a service as our commercial transactions are conducted, and as long as there is a justifiable element of service in the transaction involving futures it seems to me to be entirely justifiable and impossible for legislation to eliminate it, as we do business.

Mr. SINCLAIR. Mr. Atkeson, do you think that the increase of speculation in the grain markets causes the prices to fluctuate, rise or fall, more than it would if there were no speculation in it?

Mr. ATKESON. Well, I think it is very questionable. I do not think it is demonstrable at all whether that is true or not.

Mr. SINCLAIR. That is the very point that we have never had any authoritative testimony on.

Mr. ATKESON. As I said a while ago, if I have a thousand bushels of wheat and want to sell and there is no market, as is the case with the cotton growers now, then there is no price, but when the price gets low enough somebody will gamble, if you call it that, that it can not stay there; that it will go higher.

Let me illustrate: A good many years ago, on my farm on the Kanawha River in West Virginia we had 100 tons of baled hay, and we tried our best to find a market for it at $8 a ton, and did succeed in pushing a little of it off on the steamboats that went down the river—just pushing it down the hay chute, and shipped it. But we simply could not sell it, but the next year all that hay went out of that hay house, without even going to the trouble of sending it down the hay chute, at $20 a ton. There was an element of gambling in that. We could have sold it, possibly, at $6, but we held it over, on the theory that $8 was the lowest fixed price. The next year there was a drought and the crop was very short, and we made $12 a ton by leaving that hay in the hay shed where it was in the dry, and the people came and hauled it away and were glad to get it. That was a gamble. If there had been a big hay crop the next year, we would have had it still on our hands.

Now, when the price goes low enough there will always be somebody who will buy on a gambler's chance, but the man who had it for sale had also every day in the year a market at some price. Remove that element of chance in the future, and there will be no market at any price.

Now, I do not want to go too much into these things. I am rather more of a philosopher than a lawyer. We all recognize, and the farmers have always recognized, that there were these transactions going on in our great grain exchanges and cotton exchanges—that because they were controlled by a few individuals, as someone said awhile ago, and being human they were selfish individuals, that undue advantage was taken of their opportunity to depress the price of farm commodities when the farmer was ready to sell, or had to sell, as is sometimes said, and further on took advantage of the same opportunities to force the price up on the consumer—on the people who had to buy these same farm commodities. Whether that is true or not I am not at all certain, but there is that feeling that is almost

universal among farm people, and I think I know what the farm people of this country think. And they are looking to Congress for some remedial legislation that will remove from these grain exchanges whatever of evil exists, which may be removed without destroying the growth; that we must still retain the advantage of the certainty of a market at some price every day in the year, and at the same time correct, so far as is humanly possible, the evils that exist.

Now, if this committee were to ask me to write a bill that would do that, I might do my best, and I think I could do some things, but I am never certain what the effect of an act of legislation will be upon the thing that it attempts to accomplish. I do not think anyone can tell finally until after he has at least made a trial.

Now, then, public sentiment—and with this I am going to close, without somebody wants to ask some more questions—public sentiment now, both from the standpoint of the consumer and the standpoint of the producer—the farmers themselves—public sentiment is demanding that Congress do all that it possibly can do to remedy a recognized evil existing on the grain exchanges of the country.

Mr. WILLIAMS. Well, isn't the manipulation of the market really the evil we are after?

Mr. ATKESON. What is that?

Mr. WILLIAMS. Is not the manipulation of the market the evil we are really after?

Mr. ATKESON. Yes; I think so. Now, I am inclined to think that you gentlemen who are experienced in writing legislation can come nearer, after having heard the statements of these experts from the grain exchanges and others—you can come nearer to writing a bill than they could, or I could, or the farm people could. We have referred to the existing evils, and it is the work of skilled legislators and skilled lawyers to prepare the legislation that will accomplish the purpose.

I have a brother in this Congress, and I have all the fun I want with him. This is his first session, and he is from Missouri and I have been trying to show him, because I know more about legislation than he does.

But whether it is a fact or not that great wrongs result from the present stock exchange system——

Mr. CLARKE (interposing). Through your publications or otherwise is there any effort being made to educate the farmer of how much they can expect and how much they can not expect from legislation—what the limits are, what Congress can do, and what it can not do?

Mr. ATKESON. All of you have received this booklet that we send out to the Members of Congress from the National Grange headquarters here in this city. We are in no sense radical. We do not undertake to say that you can lift the commerce of this country over the fence by legislation. We are confronted with a desperate situation just now; American agriculture has never been through just quite the same conditions that confront it now. We were very nearly to that following the Civil War, and I lived through that period, and it has a very direct bearing on what we are going through now. This thing had to come in some form or other, we recognize.

Now, we do not expect legislation to cure all the ills of agriculture, and I am not here in Washington with any thought that Congress can do what the people ought to do themselves but just to talk these things over with the committees——

Mr. CLARKE (interposing). The thought I had in mind is this: In your publications and the lecturers that go out to the granges—whether those lecturers you send out were really informed above the average regarding these questions which are vital to the farmer and vital to us in Congress, as to what the limitations are. Evidently, from this testimony from this gentleman from Minnesota, we might expect almost anything from these organizations that pose as friends of the farmer.

Mr. ATKESON. After our long experience we know this—and I think everybody that has observed it knows it—that wherever disastrous periods come to agriculture, as disastrous periods come to our whole business world—that there are some people who undertake to capitalize their assumed knowledge by misrepresenting the facts to the farm people of this country. Just about once in a generation the farmers of this country are grossly misrepresented by some of their assumed leaders; not all of them, by any means, but there are leaders who capitalize such conditions as exist now, and such condition as followed the Civil War. And then we have emotional periods such as followed the Civil War, and later we had the Farmers' Alliance movement, which finally culminated in the Populist movement, and that sort of thing. Up and down this earth there are people who capitalize that sort of thing, claiming to be able to diagnose the ills and give the gospel of cure to the people. They go to the people with the thing the people are willing to listen to and cause a good deal of unrest in the country; a good deal of unrest results from listening to such people who do not know much more about the business than the people they are talking to.

That is a little remote from this question. But outside of that, I think there is an honest conviction, based on dependable evidence, that there have been in the past and are now evils existing on the grain exchanges that ought to be corrected, and in order to allay public feeling in the matter, this public opinion, I believe that Congress ought to put on the statute books the sanest and soundest and safest legislation that they can possibly put there dealing with this question of dealing with futures, and then we will see what comes of it. And we will trust to your wisdom, so far as that is concerned, to do just that thing. But public sentiment, both among the producers and the consumers, is demanding some legislation of that kind.

Mr. WILLIAMS. You indorse the principles of the Tincher bill?

Mr. ATKESON. As I said before, that so far as I am able to interpret the different bills—and I have studied all of them the best I know how—I say that it comes nearer, with fewer amendments, it comes nearer to meeting the requirements of the situation that any bill I have seen.

Mr. JONES. Mr. Chairman and gentlemen of the committee, I do not think we have had an actual farmer before us in this hearing thus far, and I have present here with me a gentleman from my district who is an actual wheat farmer, farming each year in the neighborhood

of 1,200 acres of wheat. I would like to introduce him to the committee—Dr. O. H. Lloyd.

Dr. Lloyd also in a way represents the West Texas Chamber of Commerce.

Mr. PURNELL (presiding). We will be glad to hear him.

STATEMENT OF DR. O. H. LLOYD, AVOCA, TEX.

Dr. LLOYD. My name is O. H. Lloyd; my home is in the little town of Avoca, near Amarillo.

Mr. Chairman and gentlemen of the committee, I surely did not come here to appear before a committee in this connection. However, I am glad to appear before you for a short time and give you such views as occur to me. I am a retired physician, who is now farming. I was raised on a farm, but along some time in the beginning of the nineties I made up my mind that the farming business was bad and took up a course in medicine and graduated as a physician and followed that graduation by 15 years of practice, and then decided to again go back to the farm. I went into the Southwest country, and happened to land in the country where Congressman Jones comes from.

Having been raised in Kansas as a Republican, I found that to have any influence in politics in Texas I have to vote the Democratic ticket. Consequently, I am a Republican-Democrat; a Republican nationally, but in Texas a Democrat.

On the issue of the bill you have been considering here I have been much interested for some time, principally for this reason: We as farmers—and I am including myself with the other fellows—have come to the conclusion that if we have to continue to grow wheat and do it at a loss, we are going to come to the point where we are going to let the rest of you grow wheat; we will grow what we need to eat, and if you need anything to eat you have got to grow it yourselves.

Now, I travel a great deal. I am an honest booster, if you ever heard of one, and I boost wheat. I have been in 26 States in the last 6 months. I have talked to the farmers at the grass roots. I do not go to the big organizations, but go to the farmers right at the the grass roots and talk with the man right in the hayseed, and that is the general impression of the farmer as I find it. He says: "If we have to grow wheat at a loss, we will quit." God hates a quitter, and he won't quit if he can continue to make a dollar when he grows a crop of wheat.

But he has all the elements against him. He is different from the factory man, who knows exactly what his profit is going to be on a machine when he makes it. The farmer plants an acre of wheat, and if God Almighty is kind to him, and the sunshine and rain and the weather elements are favorable and labor does not get too high, and the bolshevik does not come along and destroy his wheat, as sometimes happens, he will make a profit on that wheat, perhaps; but year in and year out he has those elements to contend with. There is no way of figuring what price he is to have for that wheat, and for that reason he must feel that under reasonable conditions he must make a profit on that wheat or he will come to where he will not grow wheat. And I have learned, in that portion of the country

I have been over in the last six months, from the Atlantic to the Pacific, as far north as the northern part of Nebraska, there has been a decrease in the acreage of wheat. In my own country, the Panhandle of Texas, is the only country where there is not a decrease, according to the evidence I have been able to get from the farmer. And that decrease in acreage is the product of the feeling that the farmer has not been treated right.

Now, I am one of the farmers, and I am going to tell you that the farmer is going to be a hard proposition to handle if he ever gets the bit in his teeth and is driven to organization and decides he will quit, and we hope that is not going to become necessary. If we can come to an understanding nationally that the farmer is going to be treated right, then he is going to go ahead and grow wheat.

We know what we have had to contend with with labor for the last two or three years, as an organization. The farmers now are organizing a wheat growers' association, and organizing it very strong. They are pooling their interests. A little town in my State held a meeting as I left for Atlantic City the other day, and they voted to pool their interests 100 per cent. Now, if they pool their interests and find their power, they are going to be a hard class to deal with. That is partly because many of the farmers have not had the advantages of an education, and we know what ignorance breeds. If they have not an education and believe their interests are being infringed upon, they are going to be hard to handle. It will be hard for us to hold them down. I am going to do my best to hold the farmer down.

Mr. WILLIAMS. He is already down.

Dr. LLOYD. What I mean is to hold him down in organization.

Mr. KINCHELOE. Doctor, you are familiar with these bills?

Dr. LLOYD. I have read them.

Mr. KINCHELOE. What do you think of the proposition of hedging?

Dr. LLOYD. I think there ought to be hedging permitted to a reasonable extent.

Mr. KINCHELOE. Do you think this bill, for instance the Tincher bill, is along the right line?

Dr. LLOYD. Yes, I do; I favor it.

Mr. KINCHELOE. You think it is a good bill?

Dr. LLOYD. I think it is a good bill. We never can tell just exactly what a bill will work out before it is passed, but it looks good to me.

Mr. KINCHELOE. Doctor, you think that by doing away with hedging it would likely destroy the present system of marketing we have to a certain extent?

Dr. LLOYD. Entirely done away with, I think it would.

Mr. KINCHELOE. You think it would?

Dr. LLOYD. Yes, sir.

Mr. KINCHELOE. You think a man has a right to hedge, because he can give the farmer more for his grain, because he is insured by hedging the grain he buys?

Dr. LLOYD. I think so.

Mr. KINCHELOE. And that is legislation that you think will be of benefit to the farmer?

Dr. LLOYD. Yes; the farmers are feeling that it will be of benefit to them.

Mr. KINCHELOE. And you really feel, as a practical farmer, with the knowledge you have of this legislation, that it will be of benefit to the grain-growing interests of the country?

Dr. LLOYD. I do.

Mr. PURNELL. What do you think of the purely speculative side?

Dr. LLOYD. I think it is bad.

Mr. KINCHELOE. Doctor, you say you are in favor of eliminating the speculator and these exchanges from speculating in future delivery?

Dr. LLOYD. As a question purely of speculation.

Mr. KINCHELOE. Now, it has been stated here by a great many of these representatives of these exchanges—they contend that the speculator in futures is a benefit by reason of the fact that he creates a market at all times of the year; what do you think about that?

Dr. LLOYD. That would be getting rather deep into the subject, but I am inclined to think that without the speculation the market would remain, providing there was no other interference.

At the time I cut my wheat it was $2.65 a bushel, and it was for sale; I put it on the market, but at that time we could not get cars at all.

Mr. CLARKE. What effort did you make to get the cars?

Dr. LLOYD. We took action through the chambers of commerce, the various ones of the country; and we took it up through organizations and the elevators.

Mr. CLARKE. What was the reply of the railroads?

Dr. LLOYD. That they did not have the cars; that they could not furnish us the cars.

Mr. KINCHELOE. Doctor, have you any cooperative elevators in your country?

Dr. LLOYD. Yes, a few; there is one in my town.

Mr. KINCHELOE. Any others at this place?

Dr. LLOYD. Not in my town.

Mr. KINCHELOE. Doctor, I started to ask you this, and then I am through: Have you any towns in your country where there are independent elevators and farmers' elevators in the same town?

Dr. LLOYD. We have independent buyers and farmers' buyers in the same town, and they ship to the independent elevators.

Mr. KINCHELOE. Is there any difference in price between what the independent elevators pay and the farmers' elevators pay?

Dr. LLOYD. There is this difference: Previous to the organization of the farmers' elevators the price was not commensurate with the market, as it was since their organization. Now there is not much difference; the one pays about as much as the other.

Mr. KINCHELOE. The point I make is this: The points adjacent to the farmers' elevators, do they give any more than they do where there are no farmers' elevators?

Dr. LLOYD. Yes, sir.

Mr. KINCHELOE. You think that is a fact?

Dr. LLOYD. Yes; in our community.

Mr. JONES. Doctor, you raise wheat year after year?

Dr. LLOYD. Yes; sometimes I make a failure, but I sow wheat.

Mr. JONES. You have some sowed this year, have you?

Dr. LLOYD. Yes; about 1,200 acres.

The CHAIRMAN. Doctor, we are much obliged to you for appearing before the committee.

Gentlemen, my office has been in communication with the office of the Secretary, and it will be very inconvenient for him to appear to-morrow, and he asks if he might appear at some later time. What is the wish of the committee? He has been informed that it would be a great convenience to the committee if he could come to-morrow, so that we could close the hearings to-morrow. He has just telephoned that it would be more convenient to him to have it sometime next week.

Mr. KINCHELOE. Of course, I assume it would not suit his convenience to come at night.

The CHAIRMAN. How would it be to arrange for an evening meeting?

Mr. KINCHELOE. For the purpose of consulting the Secretary?

The CHAIRMAN. Yes; I am quite sure he would arrange to see us in the evening.

Mr. TINCHER. I wonder whether he would see us in the evening, if he were told that we are to start on the packer hearings on Monday; that some of us feel that if it is deferred until after the packer legislation hearings it will be too late to do any good for this harvest? We would like to hear him before we start consideration of this bill. However, we will hear the Secretary. Tell him that some of us would like to report the bill out to-morrow evening; that is the object of trying to get him here.

(After some time spent in consultation and in telephoning to the Secretary's office.)

Mr. TINCHER. The Secretary of Agriculture can not come before the committee before Monday evening at 7 o'clock. Would it suit the members of the committee to hear him at that time?

Mr. KINCHELOE. The only trouble with me is, some time ago I consented to make a speech in New York to the Kentucky Society on Tuesday, and I would have to leave here on Monday.

Mr. CLARKE. I will have to be in New York on Monday.

Mr. JONES. Here is the proposition in connection with this: If we are going to have this legislation, it should be in time for this year's grain crop, and it has to pass the House and Senate, and if we have any legislation at all, it should be passed early.

Mr. TINCHER. If we can get him here on Monday morning at 9 o'clock, will that suit you?

Mr. KINCHELOE. Yes.

The CHAIRMAN. We will find out whether the members can be here, and then we will find out whether he can come here at that time. We can postpone the packer hearings for a half day.

(After some further time spent in consultation and telephoning to the Secretary's office.)

The CHAIRMAN. I am advised that the Secretary can be here on Tuesday morning between 9 and 10 o'clock, or he can be here on Monday, Tuesday, or Wednesday evenings. He can come on Tuesday morning, but he will have to get away to attend a Cabinet meeting at 11 o'clock.

Mr. TINCHER. It is my plan now that we report out some bill, or refuse to, at that meeting. There is no use waiting for a month.

Mr. KINCHELOE. If it suits the rest of the committee, it will be all right with me for Monday evening.

Mr. TINCHER. Mr. Chairman, I would like next to have heard Mr. Watkins, of the Federal Trade Commission.

The CHAIRMAN. The committee will be glad to hear Mr. Watkins.

STATEMENT OF MR. G. P. WATKINS, EXAMINER, FEDERAL TRADE COMMISSION, WASHINGTON, D. C.

Mr. WATKINS. Mr. Chairman, and gentlemen of the committee, my presence here is perhaps due to the fact that I have been devoting myself or the most of my time during the past three years to the subject of future trading in connection with the grain investigation which has been conducted by the Federal Trade Commission throughout that period.

My particular division of the work has been grain futures. There have been other men doing other parts of the work. This investigation was started as a general food investigation during the war, with several divisions, one relating to the packers, and another to canned goods, and another to flour, and another to grain. The grain portion of the investigation has taken an unexpectedly long time, and has been continued as an independent investigation rather than as a division of the original food investigation. Several volumes of the report have been published by the Federal Trade Commission, and others will follow as they are prepared.

In appearing before you this afternoon I want to say that I am not in a position to give you the opinions, certainly not the recommendations, of the Federal Trade Commission. Whatever I say is, of course, what I have learned at Chicago and at other places. I spent somewhat over a year at Chicago trying to get records of the volume of trading and other things of that sort relating to futures. I have also studied the interviews and documents obtained by others.

I think I might be of most service to you by answering any questions you may wish to propound. However, perhaps in order to facilitate the framing of questions, I will begin by mentioning several points where I think there are evils and as to which remedies should be provided by law or regulation in connection with future trading.

To begin with, I wish to mention again and to emphasize the fact especially that when I express opinions they are my personal opinions rather than opinions of the Federal Trade Commission. Of course, the Federal Trade Commission is not prepared to express an opinion until the investigation shall have been completed.

Mr. SINCLAIR. You have not a summary of your investigations prepared, have you?

Mr. WATKINS. No. I have not consulted the members of the Federal Trade Commission nor the other examiners employed by the commission who have worked upon the grain investigation in this connection. I believe the Federal Trade Commission was telephoned to on last Monday by the Secretary of Agriculture with the suggestion that I ought to come down here. I think my name was mentioned, and I have been attending the sessions of the committee since that time instead of doing anything else.

Mr. CLARKE. How extensive did you find the records of the Chicago Board of Trade as to the volume of the transactions there?

Mr. WATKINS. As to the volume of trading?

Mr. CLARKE. Yes.

Mr. WATKINS. The individual commission houses have fairly complete records; that is, the members of the clearing house, especially the large commission houses, with reference to their customers, for whom they must keep records. But the members of the clearing house who are merely scalpers, trading on their own account, frequently have no records. Those they destroy quite promptly. So that in our efforts to get comprehensive records of future trading prior to the period when the tax went into effect, in connection with which reports are required by the Internal Revenue Bureau, we encountered great difficulty. But we have fairly comprehensive data, though not complete data.

Mr. CLARKE. You have read the paragraph in the Tincher bill that seeks to remedy that situation by requiring a record of all sales?

Mr. WATKINS. Yes. But that goes much further than merely the matter of getting information as to the volume of trades. Information as to volume of trades is already compiled and consolidated, at least all but the final stages of it, through the reports to the Internal Revenue Bureau. The volume of trading can be obtained from the present records for the period since December 1, 1917.

Mr. KINCHELOE: Do you indorse this provision of the Tincher bill requiring the filing of a record of transactions?

Mr. WATKINS. I think that a very valuable feature of the measure, something of that sort.

Mr. KINCHELOE. What do you think about the speculator in connection with future trading? Is he a menace to the grain trade of the country or a benefit?

Mr. WATKINS. If hedging is to be provided for, then speculation naturally goes with it.

There is one characteristic feature of hedging which perhaps has not been sufficiently emphasized, and which if emphasized I think will make the matter clearer to you.

I suppose the word "hedge" was originally a gambling term, as used in betting. To hedge a bet you bet one way and then you bet on the opposite side, thus hedging your bet. The hedging of a cash grain transaction is of a similar nature. The country elevator buys 1,000 bushels of cash grain from the farmer. It sells 1,000 bushels of futures at Chicago or somewhere else. That is, it is on both sides of the market, in a sense. If that future sold as a hedge were to be used as a means of disposing of the actual grain bought then it would not really be a two-sided transaction, the sale of the future would be a means of disposing of the grain. As it is, however, the elevator man probably is not going to dispose of the grain through that future sale. He is going to sell it as cash grain and get the benefit of whatever opportunity the particular quality of the grain may give him. It may be better than the contract grade, and when he does that he will again repeat the process of selling and buying at the same time. That is, he will sell his cash grain and buy in his future.

Therefore there must be a market in which he can sell his future when he buys cash grain. In that market you might have hedgers who are hedging flour contracts or buying futures. But you would not be likely to have the coincidence of the presence of the seller of the hedge against the purchase of cash grain, and the presence of the buyer of the future against the sale of flour.

Mr. KINCHELOE. Would you restrict by law any hedging that is indulged in indiscriminately on the boards of trade?

Mr. WATKINS. I think some restrictions might be adopted by law, and possibly others by regulation rather than by law; that is, I think some things can be written into a law and some things can be better accomplished or just as well accomplished through regulations prescribed by the Secretary of Agriculture, if he should be given the power of supervision over the exchanges.

If I may go ahead I will take up several points that I have a memorandum of here, briefly, and then will be glad to answer questions, or I shall be glad to answer questions as I go along as may seem desirable to any member of the committee.

In the first place, as regards the abolition of trading in "puts" and "calls" and "indemnities" and so on, as they are variously called, I think such action desirable and probably it can be accomplished by a law taxing them out of existence. That would probably be more effective than to allow the individual grain exchanges to deal with the matter, because if one market has not got them there may be a special profit to another market in providing facilities of that sort.

Although these privileges may be used in the cash grain trade, the extent to which they are as a matter of fact so used makes them of no importance to the actual grain trade. In that respect the difference between privileges and futures is considerable. There is no question but what the futures market is used by the cash grain trade, and used in a way to be very important to the cash grain trade. That is, by the way of hedging.

Then another point as regards trading in futures, it is necessary to have a futures market for hedging purposes, and it is necessary in order that hedging may be practiced that there be speculators in that market.

I do not agree that because there should be a futures market, with speculators in the market in order to have hedging facilities, that the broader you make that market, and the more speculators of all sorts you include, the better it works. That is the implication of some of the arguments made on behalf of future trading.

Mr. VOIGT. Let me ask you a question right there: Can you see any way to limit future trading and still retain hedging?

Mr. WATKINS. Certainly future trading can be limited. I mean we can describe certain classes that might well be kept out. I do not know whether by means of law it is always practicable to keep thoses classes out.

Mr. VOIGT. What classes would you say should be kept out?

Mr. WATKINS. Perhaps we can deal with it from the other end better. Suppose we say what classes might be included. Persons in the grain trade and who know the business and have experience with the way grain is disposed of and know the facts as regards supply and demand, etc., are competent to speculate if they feel so inclined.

Mr. VOIGT. Right there. I take it that there are a lot of men in Chicago and in Minneapolis who are wealthy, or wealthy at times, whose chief business is to speculate on the grain market. But they do not produce grain?

Mr. WATKINS. No.

Mr. VOIGT. They do not handle the physical grain. They are merely speculators in grain?

Mr. WATKINS. Yes, sir.

Mr. VOIGT. Just as a speculator in New York speculates in stocks?

Mr. WATKINS. Yes, sir.

Mr. VOIGT. He has no participation in the company in whose stock he is dealing in any way, shape, or form, the company in which he owns stock or in whose stock he speculates. But that man is more or less fully informed, or fairly well informed, at least, on market conditions. Would you allow him to speculate?

Mr. WATKINS. I would; yes. He is informed and he has financial resources to go into the market and speculate in a business-like way. He can take the consequences if they go against him, and I do not think we need ever to protect him from the consequences of his own acts, or protect the market from fluctuations that unwise trading on his part might cause.

Mr. VOIGT. Would not it be impossible to frame a law which would practically require an educational qualification as to trading?

Mr. WATKINS. I think it would be; yes.

Mr. VOIGT. Then, we may as well eliminate that feature from consideration. The question bothering me is if we are going to restrict future trading and still permit hedging how are we going to shut any class of people out from participating in the trading?

Mr. WATKINS. I do not know how you would do it otherwise than to compel anyone not in the grain trade or not a member of a board of trade to obtain a license before he may buy or sell grain futures.

Mr. VOIGT. That would be discrimination. You would then compel a man to take out a license or to belong to one of these organizations before he could do as they do.

Mr. WATKINS. But I do not mean to make the requirements stringent for a license. In fact, it might be merely a question of his putting himself on record as desiring deliberately to trade in futures.

Mr. VOIGT. If the license is made a nominal matter like an automobile license you would not cut out much speculation by that process, would you?

Mr. WATKINS. I think you would cut out some. Of course, I can not say as to how far it is possible to restrict trading. I think some trading ought to be so dealt with.

Mr. SINCLAIR. How about cutting out the incompetent speculator or the sporadic speculator in the country, who jumps in and out?

Mr. ASWELL. You are going to require a record of transactions?

Mr. SINCLAIR. If a man had to have a license he could not speculate at all in the case of a small country speculator.

Mr. VOIGT. I think it impossible for the Congress to pass a law to protect a man from his own foolishness.

Mr. WATKINS. I think so, too. I would not make the license operate that way; that is, require an educational qualification. It would be rather a question of making sure that the man had taken thought before he went into future trading, and, perhaps, had a little in the way of resources to prevent his merely going in on a shoe-string margin and simply losing that.

Mr. ASWELL. Is it the business of the Congress to look after him?

Mr. WATKINS. No. In fact I think the benefit of that sort of thing which would make such a measure worth while for the Congress

to consider is whether the market, as to influences affecting prices, would not work better without those people in it.

Mr. VOIGT. Some small fry who had a license might get it into their heads then that they were qualified, and might overspeculate.

Mr. WATKINS. I can not say that that might not be so. Just as soon as you go beyond the circle of the grain trade and membership in the exchanges about the only thing I can suggest as a means of restricting trade somewhat is the requirement of a license.

I know that it has been suggested by members of some of the exchanges that a license would be a good thing to keep certain elements out of the futures market. If that were required why then the law should put the duty upon the commission man to ascertain that anyone who wanted to trade in futures was either himself in the grain trade or a member of a board of trade or possessed of a license to trade in futures.

Mr. ASWELL. Do you think that would be constitutional?

Mr. WATKINS. I do not know. I am not a lawyer. I should think it would be, however.

That, by the way, would facilitate the keeping of a record of transactions. The list of possessors of a license, of members of a board of trade, and of persons known to be in the grain trade could be checked against reports of trades made. That would be one means of seeing whether the exchanges were living up to the expectation that they would supervise trading and prevent undesirable elements from getting into it.

Mr. VOIGT. That would not be necessary under the Tincher bill. Under the Tincher bill a trade can only be made through some organization; that is, the man who stands behind the trade does not have to be a member, but the trade must be made through a member of the board of trade. Now, then, the Tincher bill provides that anyone trading must make a report. If a member would fail to make a report he would have to be in collusion with another member, because each one reports half the transaction.

Mr. ASWELL. Why would not that often happen?

Mr. VOIGT. Do you mean that they would fail to report?

Mr. ASWELL. Yes; would act in collusion.

Mr. VOIGT. I can not see why a member of one of these boards should incur the risk of the penalty provided by failing to make a report.

Mr. TINCHER. The only thing that would make them do it would be fear of the law, the same fear as of violation of any law.

Mr. WATKINS. I do not think there would be much difficulty about the making of reports. The question to be considered is how to fit them into the present practices of the commission men so that they can do that as easily as possible. I should think the simplest way, and perhaps an adequate way as regards futures, would be to require the filing of carbon copies of confirmation slips, or purchase and sales slips or memoranda, as made to customers, and then supplement those by requiring all persons who trade on their own account, executing their own trades, to make a separate report of those trades. So far as trading is done through some one else—that is, through a member of a clearing house—a report is made to the customer immediately when the trade is executed, and another report is made when

the trade is closed. It would be a simple matter to file carbon copies of these memoranda, and they contain, I think, practically all the information that Mr. Tincher's bill requires.

Mr. VOIGT. That is open to the objection that it would require a terrific force of clerks at Washington to go through those reports and classify them and tabulate them. My idea is this, that we should require a member of a board of trade, or whatever you call the organization who makes one of those trades, to report at the end of the month to the Secretary of Agriculture the amount of cash grain he has sold on each day during the month, giving the size of the lot. Then he should report for each day and for each grade the amount that has been sold for future delivery or sale. And his report should be subdivided so as to show the number of sales up to 5,000 bushels, 10,000 bushels, and on up. Then the Secretary of Agriculture can see at a glance whether there have been transactions of so large an amount as to constitute manipulation of the market. I do not think the men who speculate in 25,000 or 50,000 or 100,000 bushels of grain affect the market at all. But I do think that when a man of great means goes into the market and buys or sells millions of bushels of grain that he can create an artificial condition. But the report to be made to the Secretary of Agriculture showing the number of transactions, from 5,000 bushels up, will show immediately whether there has been any manipulation of the market.

Mr. ASWELL. Do you mean that the commission men should make those reports for their customers and consolidate them?

Mr. WATKINS. I think it would not be difficult to pick the big traders from those purchase and sales slips, because on those slips you would have the names of the traders. You can file them by the names of the traders, and naturally would. The names of the big traders are known, and watching the slips as they came in would reveal others.

Mr. VOIGT. You can get at that by requiring the broker to report the total transactions during the month?

Mr. WATKINS. Yes, sir.

Mr. VOIGT. Made by any individual exceeding, say, 5,000 bushels?

Mr. WATKINS. Yes. But so far as the matter of tracing an individual's transactions is concerned, with these slips filed alphabetically, you could do it very quickly.

Mr. VOIGT. If there were any manipulation shown, the Secretary of Agriculture would not care to trace the transaction, but if he sees evidence of manipulation he would have the authority to send an agent right to the books of that broker and examine all transactions.

Mr. WATKINS. Yes, sir; but that would take time. For instance, this large speculator who is thought to be manipulating the market may be selling comparatively small quantities through several commission men. If those commission men make a report, filed under their own names, it would take quite a matter of time to assemble the trades of an individual speculator. If the trades were reported by way of carbon copies of the slips sent to customers, each man's trades would come together and be filed under his name.

Mr. VOIGT. I imagine if you were to follow that course you would have several wagonloads of those slips coming into Washington every month.

Mr. WATKINS. I do not think it would be quite as many as that, but it would be a good many, and, of course, practically all that could be done with them would be to file them alphabetically. It is not a great job to file two or three wagonloads of slips alphabetically. And when you get the information in that shape you do not have to stop at a knowledge of the volume of trading. You can learn whether a particular individual has bought or sold 500,000 bushels a month. You can also learn whether he is buying through one broker while selling through another. You can also learn the prices for every lot that he sold or that he bought. If you confine yourself to that particular man's transactions you could do all this within a short time, though you could not do it for all traders in a short time.

Mr. VOIGT. It may be best to cover that by providing that these brokers shall make a report in such form as may be prescribed by the Secretary of Agriculture.

Mr. WATKINS. It seems to me that would be the best way to do it, because that sort of thing is rather a matter to be adjusted by administrative regulation than by a hard and fast law. I do not know myself what would be the best way in which to require the reports.

There are various matters about which——

The CHAIRMAN (interposing). Just in that connection. Why could not we give the Secretary of Agriculture power to prescribe the manner and form in which books shall be kept and let the exchanges carry the burden of bookkeeping and making reports rather than have the Secretary of Agriculture carry that burden? Let them have their books open for inspection to the Secretary or to his agents at all times.

Mr. WATKINS. It would always take some time.

The CHAIRMAN. You are talking about relieving the exchange of the burden and passing it on to the Secretary of Agriculture.

Mr. WATKINS. The disadvantage in something of that sort would be that if the commission houses keep those records, at Chicago for instance, you would have to send a man out to Chicago, and he would have to spend quite a while looking into their records.

The CHAIRMAN. The commission man would report to the exchange, and the exchange would report to the Secretary of Agriculture, the Secretary of Agriculture could require either weekly or monthly or annual reports as might be necessary.

Mr. WATKINS. That would be all right if you can get the right kind of consolidated reports that would serve all purposes.

The CHAIRMAN. It would be up to the Secretary of Agriculture to prescribe what kind of reports should be made?

Mr. WATKINS. Yes, sir.

The CHAIRMAN. I do not think we need concern ourselves about the form of the report.

Mr. WATKINS. No; but the trouble with a consolidated statement is that usually you want more detail when you are going into any given matter than can be found in such a report.

The CHAIRMAN. That would be left to the Secretary of Agriculture to determine, to what extent it should go.

Mr. WATKINS. Yes, sir; it should be and in fact is a matter for regulation.

There are several other points on which I might make a suggestion, perhaps, in order to provoke questions. All of these I think are matters for regulation by the Secretary of Agriculture or whoever has supervision over the exchanges, and of course the regulation should be made after conference with representatives of the exchanges, and probably in order to have their rules properly enforced by them the power should be given to the Secretary over the exchanges to see that they are enforced.

One reform which I think ought to be considered in that way is the question of trading by commission men themselves in futures. There are evils in that matter. Some commission men at Chicago do not themselves trade in futures. They feel that it is not the right thing for them to do. Others trade and some trade very heavily. It is alleged that they trade often against their own customers, trade on the basis of the fact which is known to them from their books that their customers are pretty generally long and therefore it is a good time to trade short. I do not know how much that is done, but I do know that it has been done in individual instances.

But even apart from that abuse there is danger that a commission man may make speculative commitments on his own account which are protected by the margins deposited with other commission houses consisting of money put up by his customers. There is no separation of his own personal funds from the funds he receives by way of deposit from his customers. He is jeopardizing his customer's money by himself trading. He is more or less in a position of trust in holding the margins deposited by his customers. Yet he may use those deposits, and sometimes in effect does, to protect his own speculative trades where he is trading himself.

As regards news censorship, that is desirable. It should be more stringent than would be likely to be exercised by the exchanges in the absence of supervision from outside. The wire houses are interested in getting commissions and therefore they are likely to send out rather sensational reports in order to promote activity. They do not invent those reports, I take it. I do not think that the sensational character of the reports starts in the wire houses very often, but they are glad to send out rather spicy news or news that will bring about buying or selling, because that brings them business. I do not know that that is a very great evil, but it is a definite evil.

Then, as regards the presence of private wires in small towns, that is something that ought to be attended to by regulation.

The CHAIRMAN. Did the Federal Trade Commission reach any conclusion on that subject?

Mr. WATKINS. There is a chapter descriptive of wire houses in a volume issued last January, and there are some conclusions there by implication. The evils are recognized. But there is no recommendation as to what should be done. Of course the Federal Trade Commission would want to take account of all the facts before making a recommendation.

The evil in connection with private wires in small towns is this: Leased wires are expensive. The rate is $20 a mile. A very small system would use as much as 1,000 miles of private wire anyhow; and one wire system has over 20,000 miles. Of course, those wires are used for stocks and bonds as well as grain.

The CHAIRMAN. Did you say one system or firm had 20,000 miles of wire?

Mr. WATKINS. One firm has over 20,000 miles of private wire.

Mr. ASWELL. How much does it cost a mile?

Mr. WATKINS. It cost $20 a mile, which would mean $20,000 for 1,000 miles of wire. So you will see the expense is very heavy, and that expense can be met by establishing as many drops in small towns along the line as are practicable, and then, of course, getting business at those various towns. When the expense for a leased wire——

Mr. TINCHER (interposing). How many miles did you say that firm had?

Mr. WATKINS. Twenty thousand miles.

The CHAIRMAN. That is $400,000 for their leased wire?

Mr. WATKINS. Yes, sir. In fact, $20 a mile for the lease is a minimum, because private wires cost for drops along the line an additional sum, and then there are certain charges for special services in connection with the wire. Then, of course, there are telegraph operators at both ends of the line and at each station, whose salaries must be met. So that private wires are an expensive proposition.

That means that there is a temptation to establish offices in small towns along the line of the wire, and then the manager of each of those small town offices is tempted to get business, to solicit business; and if there is any class of business that ought to be excluded from the futures market it is business that gets there because it was solicited. I think every one will agree that no one should be in the futures market because it has been suggested to him that he might make something by speculating. Such a man certainly does not know anything about the game.

There are certain imperfections in the workings of the futures market that can be read in the way in which prices behave. For instance, even apart from corners, which send up the price of futures during the month of delivery, there is in some cases likely to be what you might call a jolt when the future comes to a close. That is, the price of May wheat will be somewhat enhanced during the delivery month, and the price of cash wheat will be pulled up by reason of the fact that some sellers of May wheat are trying to get hold of cash wheat in order to make delivery. Then you will have an artificially high price for cash wheat the last few days in May and then a drop in June, an irregularity that is caused by future trading. That irregularity is commonly not very great but is noticeable in the statistics of prices. So long as there is irregularity there it means there is not a smooth transition from the futures market price to the cash price.

It would be possible by means of reports to compile and publish regularly once a month, or even oftener, perhaps, a statement of the volume of trades open in any particular future. The reason there is the so-called congestion often in the delivery month is because the volume of trade carried open into the delivery month is large. At the present time nobody knows what that volume is. It may be desirable to have that data compiled and published from time to time. That is a matter of regulation. I do not know how much good it would do but it might do some good.

In this connection also it has been suggested by some members of the grain trade that it would be desirable to provide for delivery of future contracts at any market instead of at the market where the contract is made. Of course if delivery is made at Kansas City on a Chicago contract there should be provision for a differential to meet the freight rate between Kansas City and Chicago. I do not know how far that suggestion is helpful but it has been made by practical grain men.

If there had been such a system in effect last September there would not have been the abnormality in September corn which there was at Chicago owing to the fact that the Armour Grain Co. had a lot of September corn bought and stood for delivery on those contracts. They did not exactly put the price up but they kept the September price relatively high to the price for December delivery during the latter part of the month of September. Short sellers who wanted to get out of their contracts had to buy them in at an artificially high price. There were even some men on the Board of Trade at Chicago who saw the situation and bought corn in the country and rushed it to Chicago and made delivery to Armour at a profit of 5 or 6 cents a bushel.

That sort of record and report of open trades would probably also check plunging. But there are other means, and especially these suggested reports to the Secretary of Agriculture, or the filing of reports at the grain exchanges, which would doubtless check that sort of thing anyway.

Another thing I have noticed in connection with a study of future prices, although I am not prepared to state a definite conclusion on the matter because I have not carried the thing far enough, is that there is a tendency on the part of the futures market to discount the future price a little too strongly. That is, the short sellers or the hedging sellers, it may be either class, and I do not know which, tend to put the market down when there is likely to be a large crop in anticipation of the effect of that upon prices. On the other hand, when there is a smaller crop and higher prices are to be anticipated, they do not register the higher prices in futures far ahead so well. In fact, the futures market may also register a discount then. Of course that is not only objectionable so far as the futures market determines the price at which cash grain is sold, in the sense that it tends to put it down, but it also impairs the value of the futures market as a hedging facility. When the future is at a discount the hedge does not work satisfactorily. And especially a hedge for a long period is not good at all. Of course that has been the situation in wheat for the past six months, the futures having been regularly at large discounts. That is one reason why wheat could not be accumulated and carried by the elevators. The big elevators that bought wheat and hedged it got rid of the wheat as soon as possible and got rid of heir hedge. If they should carry wheat under those circumstances from October to May, the delivery month, their hedge being in May we will say, they would be sure to suffer loss.

In the case of corn and oats they have been able to hedge on carrying charge basis. In the case of wheat that has not been possible, to hedge it and store it and make the carrying charges. In order to avoid loss on the hedge the terminal elevator man has gotten rid

of his wheat as soon as possible and taken in his hedge before the spread between cash and future might close up and give him a loss.

Gentlemen of the committee I think that is all I have in mind.

Mr. TINCHER. We thank you, Mr. Watkins. Mr. Chairman, I would like to have Mr. Silver of the American Farm Bureau Federation, to appear.

The CHAIRMAN. We are very much obliged to you, Mr. Watkins. The committee will now hear Mr. Silver.

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE OF THE AMERICAN FARM BUREAU FEDERATION, 1411 PENNSYLVANIA AVENUE, WASHINGTON, D. C.

Mr. SILVER. Mr. Chairman and gentlemen of the committee, during the last session of the Congress I testified here, as also did Mr. Clifford Thorne and others, on this matter. I would like very much to renew that same testimony for the purpose of advancing the Tincher bill at this time.

We have our hearts very much set on it and are very anxious that it be advanced as rapidly as possible. I do not know that I could add anything in detail to the statements which are already in your record, but would like for it to be carried along and made a part of the record in the case of this bill.

The CHAIRMAN. Without objection, it is so ordered.

(The testimony heretofore given in the matter of future trading by Gray Silver and Clifford Thorne is reprinted in the first day of these hearings.)

Mr. TINCHER. Mr. Chairman, I would like to ask at this time to be included in the record the statement made by Mr. C. S. Barrett, president of the National Farmers' Union, Washington, D. C., which is in our former record at page 63, together with the resolution adopted here in a meeting at Washington. I expected to have Mr. Barrett here this afternoon, but he was called out of town. The resolution will hereafter be furnished.

The CHAIRMAN. Without objection, it will be so ordered.

(The statement by Mr. Barrett, in the former record, is reprinted in the first day of these hearings.)

The CHAIRMAN. The committee will now hear Mr. Chantland.

The resolution is as follows:

WASHINGTON, D. C., *April 2, 1921.*

Hon. J. S. TINCHER,
House Office Building, Washington, D. C.

DEAR MR. TINCHER: One of the acts of the convention of the cotton growers, grain growers, and producers of all kinds of foodstuffs, who assembled here from 34 States last month on my invitation, was to unanimously indorse the Capper-Tincher bill. The indorsement was given on the motion of Maurice McAuliffe, president of the Kansas Farmers' Union.

Yours, very truly, C. S. BARRETT.

STATEMENT OF MR. WILLIAM T. CHANTLAND, FORMERLY CHIEF EXAMINER OF THE FEDERAL TRADE COMMISSION AND IN CHARGE OF THE GRAIN INVESTIGATION.

Mr. CHANTLAND. Mr. Chairman and gentlemen of the committee, I was invited to come here and make some remarks in regard to this bill. I might explain that I was chief examiner of the Federal Trade Commission when the grain investigation was started, and

had something to do with starting the legal phase of it. I am originally from Iowa, and have grown grain, and bought and sold grain, so I am also interested in that way. And I might say that I am still trying to get a little of it out of the ground in Maryland.

I assume that the reason why this legislation is presented and is under consideration is the fact that the time has finally arrived when a large and rapidly growing class of persons and concerns, who admittedly neither sow nor reap in the fields, and neither do they mill or spin in mills or factories, but nevertheless are arrayed far beyond the glory that belonged to Solomon, must justify their economic right to existence at the bar of Congress, speaking for the general public and its sound welfare.

The view as expressed by one eminent public man is:

> The idea that in order to find out what is a proper price for the producer to receive for his wheat it is necessary to have a lot of men selling what they haven't got and what they do not actually want in order to find out at how low a price they can buy it back is dying hard but fast.

As long as your legislation relates to food commodities which all must have, and at reasonable prices above the cost of production and legitimate elements of most direct distribution practicable, you are surely on safe legal ground, whether you base it on taxing or on the general welfare powers of the Congress.

With the law as laid down by the Supreme Court in the German Alliance case (223 U. S. 389), and the recent District of Columbia rent law case, your power to deal with the subject under the general welfare powers seems beyond dispute, and as to the taxing power you are backed by many and broad decisions.

I assume you have had before you many experts, and have studied quite thoroughly that splendid piece of economic work by the Federal Trade Commission on "Future Trading Operations in Grain," with the proper deductions that can be worked out from the statistics therein presented so elaborately, and from so many angles.

I desire only to call attention to a couple of matters that seem to me so fundamental that they should always be borne in mind when considering legislation on the subject. First of all, what is the broad general ground of attempted excuse for the practice? Isn't it fair to say that it simmers down to and may be briefly summarized in the claim that future trading tends to make a continuous and stabilized demand and market? Or I might refer to a newly invented term, "insurance."

The question that at once arises is, does the future trading practice do that to the advantage of either the producer class or consumer class? They are, of course, the only two classes with whose welfare this Congress is primarily concerned.

There must be production in sufficient quantity, and, in the long run, that must mean production at a fair return for work and actual cost.

There must be consumption, and that means that these vitally necessary products must be had by the consuming class at the lowest possible price consistent with the prosperity of the producing class.

Anything then which makes an undue spread between the price received by one and that paid by the other is inimical to the general welfare and is, at least, an economic crime. Any unnecessary toll taken in between must come largely from one or the other of the two big classes named—unless and until those in the between trading

class have theretofore accumulated enough from such tolls so that they may be engaged more or less in taking it from one another.

But, quite clearly, the fortunes that have been built up by the class conducting and engaging in future trading, and their mansions and summer estates near such trading centers, indicate that the source thereof is not originally among themselves. It can only then have been at the expense of the other two, the producer and the consumer, or else those luckless "lambs" on the outside, who surely have no place or function for either producer or consumer.

To repeat, then, the primary question, does future trading stabilize the market in any valuable economic sense? In determining this the first question to answer is, when does stabilization become needed? Surely not in times of normal supply and normal demand, if the market is left open. It is needed, if at all, in times of stress and of overdemand and undersupply, or vice versa.

To stabilize in such situations must mean to prevent unduly high or unduly low prices, or, finally, the prevention of panics.

Now, what are the facts as to such situations, as commonly known? The effect of future trading under such incentives and likelihoods, is to stimulate speculative trading and to greatly increase the final price to the consumers, often to the extent of what are called "corners," more or less complete.

Take the most recent and wide-spread orgy of speculative dealings, that in coal of last year. Universally it was both charged and admitted that the speculative market had its chance for existence and was brought into existence because of a shortage of supply at the needed places of consumption. In fact, those who sought the hardest to avoid all charges of profiteering sought to lay the whole blame on the speculators, who took possession of the spot market under such conditions favoring their entrance into the game.

Now, when future trading is a recognized institution, which is continuous, practiced, fostered, controlled, and regulated in the interest of those who engage in it, at certain large, advantageous centers, you have the danger and the possibility and even the probability of its evil effects ever present and multiplied many fold and inevitably so.

Accompanying such accelerated and increased volume of trading, whether entirely speculative or not, there goes hand in hand many unnecessary and useless and uneconomic turnovers, as the facts and statistics clearly prove.

As a simple and understandable illustration, take the grain storage capacity at Chicago, public and private combined, which is approximately 56,500,000 bushels. The speculative total actual and trading volume in that one market has averaged 18,414,000,000 bushels per annum, or over three hundred and twenty-five times the total storage capacity. Assume the entire storage capacity was completely cleaned out and turned every 60 days of each year, which it probably is not; or, for easy comparison, say the turnover was 10 times per year, and there is still a trading volume of thirty-two and a half times the total storage capacity.

By what stretch of the imagination can that be regarded as an economic function, when it is of course recalled that each turnover is an expense and usually also carries a paper profit, or added price, which the final grain must bear (except, as stated, as to that which is merely one trader or gambler taking from the other; and certainly

that purely gambling process can have no economic excuse or justification in and of itself).

The second point is, does the system aid in carrying through in times of stress? The facts are against the contention. The greater the stress or shortage and sharp demand the easier the situation is of complete control, and any and all centralizations of place of execution of the contracts are merely aids to such complete control, and the greatest single element toward control is ability to center on some strategic future month in such dealings. That is, some time before the time when the farmers and nature will renew the supply and "bust" the corner. And such control is generally accomplished to a greater or less degree as reflected by the too great discrepancy between any present cash market and the usual following May prices. The difference is ordinarily far more than the carrying charges, counting all legitimate factors.

What could be a better answer to the claim of ability to tide over times of stress than the fact that the New York Stock Exchange at the first war flurry in 1917 closed its doors to trading? And other exchanges likewise closed. And what was the reason assigned? It was that if they kept open the whole financial fabric might collapse, so that the historical fact is that those devices, having for their chief economic excuse that they are to aid in stabilizing and carry through times of stress, were shut and suspended as an aid in preventing the very calamity they were supposed to be in existence to prevent.

Whatever argument may sway you in your conclusions, at least let us have done forever with that fallacy, that these exchanges by the future and speculative trading of which they are the promoters and machinery, will ward off calamity and panic. They are on the contrary the first aids to and the active propagandists of just such flurries and worse. In fact, such abnormal and critical conditions, and what may be produced out of them, are the very life blood of the whole system. Without them they could not exist. Look at the record. When supply and demand are both normal and the market a balanced one between producer and consumer, speculation is at its lowest ebb, and these traders report "hard times." In fact, they then have difficulty in keeping up their large and well organized machinery for the taking in of the tolls from their speculatively inclined clientele.

As to the Tincher bill there are two or three points that struck me and that perhaps you might want to consider, and feel I ought to call them to your attention. I have had some little experience in drafting bills, as counsel to some committees, not only here but in my own State.

At the bottom of the first page, lines 10 and 11, it occurred to me if you leave the definition of the word "grain" as it stands some court might kill the whole proposition. I suggest that you add after the word "sorghum" these words:

Whether the actual commodity is intended or only nominally referred to in any transaction.

I am afraid some court might say that your whole bill is not concerned with a commodity, but refers to options and contracts which may not result in dealings in a commodity. Much the same question arose in the cotton corner case, where the Solicitor General argued the whole question on the basis of a corner in the actual

commodity. Justice Van Devanter said in his opinion that while the Solicitor General so referred to it, the court found that the indictment referred to a speculative corner and not to a commodity corner.

The CHAIRMAN. I would like to have you repeat that suggestion.

Mr. CHANTLAND. I suggested that in line 11, page 1, after the word "sorghum" these words be added:

Whether the actual commodity is intended or only nominally referred to in any transaction.

You may have better words, but that is the idea. So as to be sure to get the thing you want to cover.

Next and along that line is in section 7:

That the tax provided for herein shall be paid by the seller.

If you leave the word "seller" without a definition of it in the second paragraph, the people who deal in "privileges," "bids," and "offers," or "puts" and "calls" may escape the tax, as such transactions are not sales. I believe you would better define the word "seller" so as to be sure to include those so engaged which, as I understand it, is your primary intention. I have not the form of the definition but I believe it ought to be done for safety.

Mr. SINCLAIR. Hasn't that been defined?

Mr. CHANTLAND. No. You have not defined "seller" I am thinking it is safer to do so.

The next is in section 3. If you will look at the Federal Trade Commission's study of this, which is a very large volume on "Future Trading Operations in Grain," you will find that they describe two of your terms as obsolete—"ups" and "downs."

Mr. TINCHER. I recall that, but I thought maybe they would resuscitate them if we did not describe them.

Mr. CHANTLAND. My thought is, not only to have what you have in here but put their other words, in lines 14, 15, and 16, after "known to the trade as," these words:

Known to the trade as "privileges," "bids," and "offers," "puts" and "calls," etc.

Then I think you are sure to get all you are after.

Mr. TINCHER. How about "indemnities"?

Mr. CHANTLAND. The trouble with "indemnities" is that it refers to one class of contract gotten up to evade one law. The nomenclature of the Chicago Board of Trade is different from that of the Minneapolis Board. If you add these other words, you will get the nomenclature of them all, a nomenclature that will strike every board of trade and will cover the matter fully.

Those are the only suggestions I have, and if they are of any value I shall be glad.

Mr. TINCHER. They are. I think you have made a very valuable suggestion on that first proposition.

The CHAIRMAN. Is there anything else? If not, this closes our hearings on this subject, except for hearing the Secretary of Agriculture on Monday evening at 7 o'clock.

The committee will now stand adjourned until to-morrow morning at 10 o'clock, when we will consider the bill.

(Thereupon at 6 o'clock p. m. the committee adjourned until to-morrow, Saturday, April 30, 1921.)

FUTURE TRADING.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Monday, May 2, 1921.

The committee met at 7 o'clock p. m., pursuant to adjournment on Friday, April 29, 1921, Hon. Gilbert N. Haugen (chairman) presiding.

There were also present the following members of the committee: Mr. Haugen, Mr. Purnell, Mr. McLaughlin of Nebraska, Mr. Riddick, Mr. Tincher, Mr. Williams, Mr. Sinclair, Mr. Hays, Mr. Thompson, Mr. Gernerd, Mr. Clague, Mr. Aswell, Mr. Jones, and Mr. Ten Eyck.

The CHAIRMAN. The committee will come to order. The committee is fortunate enough to have before it the Secretary of Agriculture, Mr. Wallace. We will be pleased to hear from you, Mr. Secretary, if you have any suggestions which you care to offer on the future trading question.

STATEMENT OF HON. HENRY C. WALLACE, SECRETARY OF AGRICULTURE.

The SECRETARY. Well, gentlemen, I came because you invited me to come. I assumed, after receiving the copy of your confidential committee print this morning, that perhaps you wanted me to address my remarks to that. Is that the intention?

The CHAIRMAN. Any observations that you care to offer.

Mr. TINCHER. The general subject is what we want you to talk on.

The SECRETARY. Well, on the general subject I assume that your purpose is to undertake to eliminate the evils, so far as you can, on the boards of trade and various grain exchanges, and I assume also that at the present time, at least, you haven't any thought of trying to do away with those altogether; that you probably recognize them as perhaps necessary at the present time because we have no better system of ascertaining prices, and that doing away with them would probably put the farmer at a disadvantage in selling his grain, because he would have no measure of values, he would have no way of knowing just what his grain is worth in the country. I say, I assume that that is what has been running through your minds.

Now, in regard to this confidential report, I went over that this afternoon somewhat in connection with Mr. Morrill, of our Bureau of Markets, who has given a great deal more attention to the details of this matter than I have, and it seems to me that there are some places in which changes and additions should be made to this bill, and, if you like, I will take those up in the various sections.

In your section 4, the last line, inasmuch as the purpose of the bill is to apply to the exchanges, it seems to me it would be wise to add some words there making that term "future delivery" apply to trades on the exchanges. For example, if, after the word "delivery" you should say "made at, on, or in an exchange, board of trade, or similar institution or place of business."

Mr. TINCHER. Where is that?

The SECRETARY. Line 24, at the bottom of page 2. After the words, "future delivery." That is, you intended to impose a tax on sales for future delivery made on exchanges, boards of trade. But it does not make that clear; it seems to me, it applies to any contract made for future delivery anywhere.

Mr. TINCHER. My thought was that we took care of the class that we cared to exempt. There aren't any trades made for future delivery that we know of, except those made on the boards of trade, except those that we exempted in this bill.

The SECRETARY. Well, for example, "upon each contract for sale of grain for future delivery," wouldn't that apply anywhere in the country where a contract was made?

Mr. TINCHER. Well, the bill goes ahead and makes the exemption of a class that does not pay the tax.

Mr. JONES. Section (*a*), I think, would cover that.

Mr. TINCHER. Section (*a*) makes all the exemption necessary, I think.

The SECRETARY. Well, possibly it does. It seems to me that it would not do any harm to put this in.

Mr. CLAGUE. Mr. Secretary, won't you give me the language that you propose to put in there?

The SECRETARY. Immediately after the word "delivery" insert "made at, on, or in an exchange, board of trade, or similar institution or place of business." Now, I think that is the language in the cotton futures act, isn't it, Mr. Morrill?

Mr. CHESTER MORRILL. Yes.

The SECRETARY. That same qualification was made in the cotton futures act.

Now, in paragraph (a) there seems to be just a possibility that it does not protect cooperative associations which are not, in fact, the owners or the growers or renters or landowners, and we thought that could be taken care of by adding the words, after the word "or" in line 6, "or is an association of such owners or growers of grain or of such owners or renters of land."

Mr. TINCHER. That is in line 6? Will you please repeat that, Mr. Secretary?

The SECRETARY. "Or is an association of such owners or growers of grain or of such owners or renters of land."

Mr. THOMPSON. That is on page 3? Following the word "or" on line 6?

The SECRETARY. Line 6, immediately after the word "or," add the following: "is an association of such owners or growers of grain or of such owners or renters of land," and then the word "or" following that to connect it with the following subdivision. In other words, without that we have to imply that the act of such an association is the act of an agent of the owner, and there might be opportunities there for a good deal of friction.

Mr. TINCHER. I think you are entirely right, except I think the language would be surplusage, because I don't think that any association of growers or renters or owners of land would ever sell any grain for future delivery except as provided for here in the next section on regularly designated boards of trade. I don't know of any place else where they could sell it.

The SECRETARY. Well, if you assume, for example, that this cooperative association recently organized in Chicago should function in the manner that some seem to feel it will, and should have large quantities of grain, it might make contracts for future delivery direct with an exporter, or indeed, with a buyer from overseas.

Mr. JONES. Or with one of the Governments overseas.

The SECRETARY. Yes; or with one of the foreign Governments.

Mr. TINCHER. Well, I can't see any objection to it.

The SECRETARY. I beg your pardon?

Mr. TINCHER. I can't see any objection.

The SECRETARY. It seems to me there is no particular objection to it, and it seems to safeguard these associations.

The CHAIRMAN. Mr. Secretary, would that take care of the associations in our State such as the farmers cooperative associations, by saying "an association of such growers"?

The SECRETARY. That was my thought, Mr. Chairman.

The CHAIRMAN. They are not altogether growers or farmers. They sell stock to merchants as well as to farmers.

The SECRETARY. Well, they are farmers or landowners, practically all of them, aren't they? Of course, there are some who were originally farmers when they joined the association, and who have later moved to town, but in most such cases they are land owners.

The CHAIRMAN. Generally in our section of the country the bankers and the merchants and everybody take stock to help the thing along. But the majority of stock holders, I take it, in most instances are growers or landowners.

The SECRETARY. Yes; and they have been, Mr. Chairman, in the last two or three years, changing over those associations very rapidly into the strickly cooperative associations. Originally, as you know, they were not strictly cooperative, but there have been very rapid changes of those in the past two or three years.

Now on page 4, line 6, I don't understand just what is meant by the words "unaffected by local conditions."

Mr. JONES. We practically agreed to eliminate that.

Mr. TINCHER. No, I didn't agree to eliminate it. The grain exchanges asked us to eliminate it. I doubt whether it is very material or not, but I think the market, designated as a market place, a "contract market," ought to show a sufficient volume to be a general market. Before they should trade in futures or buy and sell futures I think it ought to be of sufficient volume to be a general market.

The SECRETARY. Do you have any board of trade at a point where it is not a general market? Do you know of any?

Mr. TINCHER. I have none in mind. I didn't argue with the grain exchanges much when they were before the committee.

Mr. WILLIAMS. What page is that language on, Mr. Tincher?

Mr. TINCHER. On page 4.

The SECRETARY. Page 4, line 6.

Mr. WILLIAMS. I thought we struck that out.

Mr. JONES. I did too. I thought it was already out.

The SECRETARY. Then on line 13 of the same page it reads: "Showing all transactions entered into by the board or the members thereof." It seems to me rather important that that should include: "Showing the details and terms of all transactions entered into."

Mr. TINCHER. Where is that?

The SECRETARY. On line 13. That may be surplusage. That is, that may be inferred there.

Mr. TINCHER. Page 6?

The SECRETARY. Page 4, line 13.

Mr. JONES. I think that is covered, Mr. Secretary, a little later in the paragraph, where it says "such record shall be in permanent form and shall show the parties to all such contracts, any assignments or transfers of such contract, the parties to and terms of such assignments."

The SECRETARY. You see, it doesn't require them to set out the terms of the contract. And a little later, if you like, I would like to have you hear from Mr. Morrill on that. I think he understands that better than I do.

Mr. TINCHER. Let me have those words.

The SECRETARY. I suggest adding in line 13, page 4, after the word "showing," the words "the details and terms of." And I would like to hear from Mr. Morrill on that later. He regards it as quite important.

Now, on page 5, under (*d*), I think there should be added to that some indication of what you consider enters into manipulation. I have no doubt you have considered this in connection with other bills, because I think it has been included in some of them, but I think there should be added there a limitation as to the amount of open trading that can be engaged in on a board of trade. I mean the amount of open trades by any one individual or firm. I have written out some words here.

For example, immediately following the last word in line 7, I would put in there, "including a limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person, commonly called open trades, to not exceed one million bushels in speculative transactions."

I noticed in glancing hastily over some of the testimony that has been taken before this committee—I think last winter—that you had that matter under consideration. It seems to me that your greatest evil on your boards of trade is the ability of the large operator to dump great quantities of grain at the psychological moment, and thereby beat down the price, and that if you limit the trades by any one operator you will have made some real progress in doing away with these evils.

Mr. JONES. Mr. Secretary, do you think we should put an absolute limitation, or that the Secretary should be given the authority to establish a limitation of that character if he found it necessary?

The SECRETARY. If it is practical to pass on authority of that kind, then I think it would be better to put it between two figures, for example, or, if you can delegate authority, possibly that would be better, because I can conceive of times when the open trading by one individual might very properly be larger than at other times, and

if you can delegate authority to some one in whom you have confidence, or to some institution, possibly that would be better. You know better if you can do that than I do.

Mr. TINCHER. How would it do instead of wording it "a million bushels" to reword the amendment suggested so as to leave the limitation as one of the regulations of the Secretary?

The SECRETARY. Well, as I say, if you can delegate that authority, I think it would be more desirable to do that.

Mr. JONES. I don't think there is any question about that. I think that can be done.

Mr. TINCHER. Yes; I don't think there is any question about that.

The SECRETARY. I didn't know about that. The only point is, if you can give some guide as to how to determine manipulation, that is very desirable. And one of the real evidences of manipulation is the dumping of millions of bushels in one day or in two or three days or the continued doing of it by one or two large operators, because I think they are the people who are responsible for the greatest evils in the board of trade.

Now in (*e*), on page 5, which forbids the operators on boards of trade to own or lease a telegraph or telephone line, I will confess I don't know enough about the actual operation to be able to form a matured opinion on that, but my own impression is first that the small fellows who operate over these leased wires do not cause the evils of which we complain. If you look at it purely from a business standpoint I am inclined to think they help hold up the price of grain, because they are mostly the suckers, and they are mostly the fellows who think grain is going up, and consequently they provide a buying power there which at times is valuable. That is, looking at it in the general way. Approaching it from the moral side, of course, in a sense, they are gamblers. But if you are considering only the business side of it I would eliminate that whole provision.

Mr. THOMPSON. You mean eliminate (*e*)?

The SECRETARY. I would eliminate (*e*). And for another reason also. An individual, any of us, might lease a wire, or we might own a wire, although we are not a member of the board of trade or doing any business on it, and yet we might own a wire and get these reports, and people might do business over that wire. You see what I mean?

Mr. SINCLAIR. Mr. Secretary, don't you think that sometimes there are injustices done to the public through not being able to get public business done over the wire at the same time as this private business is being done? For instance, if they leased one of the regular wires, you know. That is done.

The SECRETARY. I didn't know how that was done.

Mr. SINCLAIR. Yes. Lease a regular wire and prevent other legitimate business being done at the same time.

The SECRETARY. Well, I will confess my ignorance of the details of that operation. I didn't know.

Mr. TINCHER. Well, that operation is in this condition: There isn't any question but what there is an evil now attached to the private wire, one of the greatest evils in the grain business. The grain exchanges admit that themselves. I don't like the language of (*e*), nor did I like the attitude of the grain exchanges before the committee. They simply said that the way the private wires were oper-

ated was wrong, but they were going to adopt regulations and rules themselves to cure it, but they didn't like this regulation, and wanted us to leave it out of this bill entirely until they could take a hand in it, take action on it. I don't know whether they were laying all their cards on the table or not. I think I would let it in.

The SECRETARY. The understanding that I had about those private wires was that some firms on the boards of trade own private wires and they run them out to different points throughout the country, some of them to small towns. I know there are one or two brokerage houses in most of the State capitals of the West. And also they deal over the telephone or by wire with agents in different small towns, and my understanding is that most of the business done over those wires is the trading done by the amateur, the fellow who thinks he can beat the market. I know that in Iowa we have had one or two or three bank failures in the past three or four years because the cashier or some one in that bank thought he could beat the market. Now if you are looking at it from the moral standpoint it ought to be done away with, I think—if you had that in mind. But if you are approaching it purely from the business standpoint, as I have already said, I think that most of those people are people who think the market is going up and consequently provide buyers at times when they are needed to help to save the market.

Mr. PURNELL. I would like to get that private wire business straight in my own mind. Do some of these concerns actually own the lines?

Mr. TINCHER. They pay $20 a mile rent.

Mr. PURNELL. Why do you use the word "owned" all the time in connection with these wires?

Mr. SINCLAIR. They own the use of them for certain periods of the day.

Mr. GERNERD. In other words, they install a station and they have a man there.

Mr. TINCHER. One concern in the United States has control of 20,000 miles of private wire.

Mr. PURNELL. During certain periods of the day?

Mr. TINCHER. During the grain period.

Mr. SINCLAIR. In the same town the public official or public operator who does public business does it over the same wire as he does this private business, but he does the private business first. It has precedence. That makes it somewhat of a disadvantage and an unfair transaction in a small community.

Mr. TINCHER. Now, here is the situation on the private wire. The grain exchanges all say that if we leave it out of the bill that they will absolutely eliminate the evil from it, and they say we can not legislate on it without hurting a legitimate use of it. I don't know—I am very glad, as far as I am concerned, to follow the suggestion of the Secretary to leave it out. I didn't like their attitude before the committee, because it seemed to me they ought to be more definite as to how they were to operate. Mr. Griffin was very frank; he said he wasn't able to decide on the question of regulation.

Mr. TEN EYCK. What I got from them was this, that the people out in the small communities who would trade and would lose $100 or $150 when they lost that money it created rather a little scandal in the community in a way, about this gambling in grain, and it hurt the legitimate stock exchange through the stories that were told.

Mr. ASWELL. Are the private wires responsible for that?

Mr. TEN EYCK. Well, the use of the private wire.

Mr. ASWELL. They wanted to eliminate the bucket shops in the small communities where there are no markets.

Mr. TEN EYCK. Because of the gambling.

Mr. SINCLAIR. That would reduce what Mr. Griffin terms the incompetent speculator?

The SECRETARY. There is no question but it is gambling; there is no doubt it ought to be done away with on the basis of gambling, but if you look at it from the other side I don't see it as of great importance in putting the price down. I think the tendency is to raise it rather than put it down.

Mr. THOMPSON. In the small communities they are always figuring on the prices going up.

The SECRETARY. That is it.

Mr. THOMPSON. They feel that way about it, and they want it that way, and they are willing to bet by buying that way.

The SECRETARY. That is it exactly.

Mr. TINCHER. It is necessary for the manipulator to depress the market then in order to get the money, and I have always figured that that class of speculation was a great hindrance to the producer. And I think the grain exchanges admit even that that class of operators are a hindrance to the producer.

Mr. WILLIAMS. They have to depress the market in order to get these fellows' money.

Mr. TINCHER. Yes, they have to depress the market, and then the farmer has to stand that.

Mr. THOMPSON. Another thing, the farmers, knowing that that is going on, would be disposed to hold the grain for a higher market, and the longer they hold it the more they lose. I have seen that exemplified.

Mr. TINCHER. Well, I will admit that I don't know any more about writing that section (*e*) than the grain exchanges, and they admitted they didn't know how to write it.

The SECRETARY. Well, I make no pretensions about it. But I have a suggestion to offer there though, in the way of an addition, that perhaps you people have considered, no doubt you have considered: "When the government thereof"—assume this to be a new section—"when the government thereof admits to membership on such board of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility."

Mr. ASWELL. That is as a substitute for section (*e*)?

Mr. TINCHER. No; that is a new section.

Mr. JONES. Will you please read that whole section then.

The SECRETARY. You are laying down conditions as to what should constitute recognized contract boards of trade, and I would like to see this added as one of the conditions: "When the government thereof admits to membership on such board of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility."

Mr. RIDDICK. The boards of trade claim they admit them now under certain regulations, do they not?

Mr. JONES. They make the regulations.

The SECRETARY. I have never heard any of them admitted.

Mr. RIDDICK. Well, they make the regulations so the cooperative association can not do the very things that they ought to do.

The SECRETARY. Well, this is one of the conditions under which they would have recognition.

Mr. WILLIAMS. Wouldn't that follow (*d*) then properly?

Mr. TINCHER. Yes.

The SECRETARY. I just struck out (*e*) and put this in as (*e*). That is the way I put it. But it would follow (*d*).

Mr. JONES. If (*e*) stays in, make it (*f*).

Mr. WILLIAMS. It ought to come before.

Mr. JONES. Yes.

Mr. HAYS. If section (*e*) stays in the language of that thing should be changed, because it doesn't mean anything the way it reads. It is bad English.

Mr. TINCHER. That is on the whole committee, not on me.

The SECRETARY. I didn't get that.

Mr. TEN EYCK. He said (*e*) didn't mean anything.

Mr. TINCHER. Will you let us have the language of your suggestion, Mr. Secretary?

The SECRETARY. "When the government thereof admits to membership on such board of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility."

Mr. ASWELL. "On such board of trade," is that necessary? Isn't that superfluous?

The SECRETARY. Well, it may be.

Now on page 7, it seemed to me that there ought to be authority to inquire into all the operations, everything that goes on on these exchanges, if we are going to get constructive action. I think if you will read over the testimony it will probably disclose that nobody seems to know what ought to be done to make sure that you are enacting the sort of legislation you want in order to get at the evils of it. So in line 20, beginning section 8, I suggest you include something like the following, after the word "may," so that it will read as follows: "That the Secretary of Agriculture may make such investigations as he may deem necessary to ascertain the facts regarding the operation of grain future exchanges, and may," and then continuing the printed part, "publish from time to time, in his discretion," and then insert, "the results of such investigations," and then taking up the printed matter, "such parts of reports," etc.

Mr. TINCHER. I think that is a good suggestion.

Mr. GERNERD. Yes, sir; that is a very good one.

Mr. TEN EYCK. Yes; I agree that it is.

The SECRETARY. And then at the top of page 8, line 1, immediately after the word "record" I think you should insert the words "or make a report." That is, you require them to keep the record, but you don't require them to make the report. And then if you should adopt some of the suggestions I have made, a change should be made in line 2, so as to read "sections 4 and 5."

And then I am wondering whether at the last you should not have a section authorizing the expenditures or appropriations necessary to carry out the purposes of the act?

The CHAIRMAN. Can you give us an estimate of what would be required?

The SECRETARY. To carry out this act?

The CHAIRMAN. Yes.

The SECRETARY. Well, it would be a very rough estimate, Mr. Chairman. I am not sure that I know how many of these exchanges there are. Some six or seven, are there?

Mr. MORRILL. At least six.

The SECRETARY. Well, you have got Chicago. Is there an exchange at Milwaukee?

Mr. JONES. Yes.

The SECRETARY. Chicago, 1; Milwaukee, 2; St. Paul, 3; Omaha, 4; Kansas City, 5; St. Louis, 6; Duluth, 7; and Toledo. Does that exchange in Toledo deal in grain?

Mr. THOMPSON. Yes; grain.

The SECRETARY. That will make eight.

Mr. SINCLAIR. How about Baltimore, Buffalo, and New York?

The SECRETARY. I don't know. Do they have grain exchanges?

Mr. SINCLAIR. I don't know.

Mr. TINCHER. I think there are eight places for trading in grain futures.

Mr. SINCLAIR. There are others, but no futures.

The SECRETARY. The whole thing is experimental, in a way, and it would be very difficult to make an estimate, but just as a rough guess I should say you would want a minimum of $100,000. You would want a thoroughly competent and trustworthy man at each of these exchanges to start with. He would probably cost $3,500 or $4,000. Then he would have to have probably some clerical assistance, although that would develop as you got into it. Then you would have to have rents, you would have to have some incidental expenses. Then you would have to have an organization here in Washington, a statistical organization. These people would make their reports, and either here, or at some central point, you would have to have a good statistical organization. You would have to have the whole thing under the direction of the very best man you could obtain. So I think it would be quite safe to say that a minimum of $100,000 would be the least that you could possibly undertake to start it with.

As I see it, the big job to be done under this or any other measure that you would feel justified in adopting, is the accumulation of reliable information of what is going on, which we don't have now in many cases, and then the digesting of that, the studying of it, and the effect on the market. It is quite a real job.

The CHAIRMAN. I believe the department's estimate in the past is that it would take at least $150,000 or probably $200,000 to begin with. I believe that is what Mr. Morrill informed me.

Mr. MORRILL. That estimate of $150,000 had reference to your bill which included the standardization of grades of grain and the supervision of inspection, which this bill does not.

The CHAIRMAN. It would take at least $100,000.

Mr. MORRILL. It would take at least $100,000 on this bill, however. I think that is estimating pretty close.

The SECRETARY. Do you think we could make fair progress the first year on that basis?

Mr. MORRILL. Yes; I think we could the first year, but I think that is as little as we could get along on and do it right.

The SECRETARY. You understand that is a pure guess on our part. You can estimate it just as well as we can.

The CHAIRMAN. Without any appropriation would you be able to operate under it at all? Have you other funds that would be available for this?

The SECRETARY. I am afraid we would not make much progress, Mr. Chairman. You understand, I have been there only two months, and I have not gotten into these details. That is a great big department, and I can not speak from personal knowledge, but I think we have none too much money.

Mr. MORRILL. If I can answer that, Mr. Chairman, I will say that the money that is appropriated for the Department of Agriculture is for specific objects, and no appropriation, no money, would be available for a new law that was not in existence at the time the appropriation was made.

The SECRETARY. Gentlemen, I think that is all I have to say on this. If you have any questions?

Mr. TINCHER. Do you agree, Mr. Secretary, that this matter is of sufficient importance to the people of the United States that the Congress should take notice of the evils that exist and take such steps as are practical to eliminate the evils?

The SECRETARY. Oh, I think so, beyond a question; yes, sir.

Mr. TINCHER. Do you think that if it costs $100,000 a year to administer this law that, considering the importance of the subject, it would be spending too much money on that kind of an industry, or to protect the industry that is involved in this? Do you think it would cost too much for this Government to engage in it?

The SECRETARY. No; I think the Government could afford to expend a good deal more than that if you get real constructive action.

Mr. TINCHER. Well, now, you, of course, have had considerable experience with this; do you think that it would be practical at this time for Congress to pass a law under existing conditions to attempt to entirely eliminate the hedge or trading in grain futures?

The SECRETARY. No; I think not.

Mr. TINCHER. Do you think it would be practical to go any further in the matter than this bill attempts to go with the suggestions which you have made?

The SECRETARY. Well, now, as to that I am hardly prepared to say.

Mr. TINCHER. It has been suggested here by the president of the Grange of the United States that this proposition is like the old man and the boy who were watching the deer lick, and he and the boy saw an animal come up, and they had their guns, but they weren't quite sure whether the animal was a deer or a colt. They kept watching for a long time through the fog, and finally the old man said, "I believe I can load my gun so as to kill it if it is a deer and not hurt it if it is a colt." Now, what we have tried to do in this bill is not to kill the grain market, because there is nothing else to take its place. We don't want to hurt the colt.

The SECRETARY. No doubt there are some matters that might be added, but if we could have a year under this we would all know better at the end of that time what would be the wise thing to do then, or what additional legislation might be necessary.

Mr. TINCHER. Would you consider it more practical to pass a bill on this order to take effect now, and ascertain the actual facts, do the best we could, or to pass a law to take effect, say in two years, absolutely eliminating all trading in futures?

The SECRETARY. Well, I would like to be sure that at the time the law abolishing exchanges goes into effect we will have a system by which the farmer in the country will know about what his grain is worth.

Mr. TINCHER. So then, you think that this is more practical than that?

The SECRETARY. Yes; I think we would know a lot more at the end of a year's operation under this measure than we do now, and be able to go ahead with a little more assurance that we were really striking at the evils in such a way as to eliminate them.

Mr. TINCHER. Of course, there are some features in this bill that I don't anticipate any difficulty to enforce. Of course, the elimination of the so-called "puts" and "calls," "ups" and "downs," and those things that the boards are always agreeing to eliminate, I don't anticipate any difficulty about that. They probably would comply with that provision of the law without any expense at all.

The SECRETARY. No doubt. If you have any doubt, gentlemen, as to the merit of my suggestion that the words "the details and terms of" should be added in line 13, page 4, I would like to have you hear Mr. Morrill.

Mr. RIDDICK. I would like to have your judgment on that amendment that you suggested providing that cooperative organizations may have membership on grain exchanges. It seems to me that the way it is worded it really does not accomplish what is sought to be accomplished. As I understand it, the grain exchanges now permit cooperative companies to become members if they will comply with certain conditions, one of the conditions being that they shall not prorate the profits back to the people who sell them grain. That is the main thing that the cooperative societies are operated for. And this does not require them to permit that, I should say.

The SECRETARY. Well, if this section should be added, the section that I suggested there, that is a matter that would be determined by the supervising authority—in this case the Department of Agriculture.

Mr. RIDDICK. Well, I fail to find that. Where do you find that the Department of Agriculture will have any voice in the arrangements by which the cooperative societies could become members?

The SECRETARY. You mean reading section 5, page 3?

Mr. RIDDICK. Yes.

The SECRETARY. "That the Secretary of Agriculture is hereby authorized and directed to designate boards of trade as 'contract markets, when, and only when, such boards of trade comply with the following conditions and requirements——." And now this paragraph that I suggested is one of those conditions and requirements. It is as follows: "The government thereof"—that is, the government of the board of trade—"admits to membership on the board of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility."

Mr. RIDDICK. You are right as far as you have gone. The point that I raise is, that they may comply with all of these requirements

and still they may have a rule in their organization that cooperative societies which join may not prorate their profits back to the individual farmers who sell them grain. That is exactly what they are doing to-day. They say, "Oh, yes; you may join, but you have got to join under our regulations." And then they have that regulation.

Mr. TINCHER. Well, they haven't got any more business telling the cooperative associations that join their exchange what they shall do with their money than they have to tell anybody else what he shall do with his.

The SECRETARY. Well, if you are in any doubt on that I suggest that you change it. As I say, this is a very hastily drawn suggestion of mine. You can add to that to make it clear.

Mr. RIDDICK. Well, it seems to me that the grain exchanges can make a rule that would simply make it impossible for the cooperative societies to join; that is, make it of no advantage to join.

The SECRETARY. Well, if that was the case, and if they did not join, then that exchange would not be recognized as a contract market.

Mr. HAYS. Well, might not the Secretary prescribe the terms on which they could join?

The SECRETARY. That was my thought.

Mr. RIDDICK. That is the one thing that is missing that would make that section amount to anything.

Mr. MCLAUGHLIN of Nebraska. Now, let us examine that. I think the Secretary takes care of that.

Mr. RIDDICK. I don't see where.

Mr. MCLAUGHLIN of Nebraska. There are two provisions there that he names. One is that those associations shall be lawfully organized. They are legally organized under the laws of their State, or wherever they are operating. That is one qualification. Another is that they shall be financially responsible. That is the second qualification. Now, that eliminates any possibility of a board of trade coming in and saying, "Well, now, you prorate your profits back to your members and you can not become members." There are the specifications right there. They are legally organized, and they are financially responsible. Those are the two qualifications and they could not bring in anything else.

Mr. GERNERD. Well, they have got to come under the regulations of the Secretary of Agriculture.

Mr. TEN EYCK. And it says that when these are members of the board of trade, then the board of trade can receive permission to operate.

The SECRETARY. Well, Mr. Riddick, would this meet what is in your mind: "When the government thereof admits to membership and all privileges thereof" on such boards of trade?

Mr. JONES. Well, his point is this, that they admit them to membership now; and there are one or two that have joined, but they levy conditions which are such that most of them won't come in. Because they say "You can come in all right, but you come in on our terms."

Mr. SINCLAIR. The conditions are such that it simply defeats the terms prescribed. You can say "On conditions prescribed by the Secretary of Agriculture."

Mr. HAYS. If you added these words, "On such terms as prescribed by the Secretary of Agriculture," that would cover it.

Mr. RIDDICK. Yes; that would cover it.

Mr. THOMPSON. That would give you leeway if you found that there was trouble arising.

Mr. RIDDICK. You remember that these cooperative societies attempted to join, and the boards of trade said "You can not join"; and then they threatened to go to court about it, and the boards of trade said "Very well, you can come in, but you must abide by our rules"; and the rules provided that no members could prorate back to the farmer who sold the grain. And it seems to me that we would have the same joker in this if we didn't cover it.

The SECRETARY. I should like to see that so there would be no question about that, and you gentlemen are more competent to do that than I am.

Mr. GERNERD. Don't you cover that in your section 5?

The SECRETARY. I thought it was covered.

Mr. GERNERD. "That the Secretary of Agriculture is hereby authorized and directed to designate boards of trade as 'contract markets' when, and only when, such boards of trade comply with the following conditions and requirements"——

Mr. TINCHER. Mr. Secretary, we have, of course, the Steenerson bill before us, which includes that proposition. Do you think there is any real merit to the board of trade denying the cooperative association membership because of the way they spend their money that they make on the board of trade?

The SECRETARY. No, I do not. I think the theoretical objection to that is that the distribution of the profits to the members constitute, in a sense, a form of rebate, and that argument gains force when they say: "You don't allow us to rebate to people with whom we deal." And so they say: "You should not allow any one else to rebate to the people who furnish the business." But the answer to this is, it seems to me, that any association that qualifies as a cooperative association of producers thereby separates itself from the ordinary firm on the board, and I confess I can see no merit to that objection.

Mr. JONES. They all gave this as the reason, every one, as I understood, that they would pay the broker a certain commission. In order to maintain their exchanges this broker must receive that commission. That these cooperative associations require the broker to turn back a part of his commission, in other words, to cut the commission. If you start cutting the commissions the first thing you know the brokers will begin cutting against each other and destroy the exchanges.

The SECRETARY. Well, it won't destroy the exchanges.

Mr. JONES. Well, I am giving you the statement that they made. That is what was stated.

Mr. TINCHER. They don't do that at all. They simply divide their profits on a prorated basis.

The SECRETARY. I think they should have the rights and privileges as well as the obligations of membership on the board of trade.

Mr. TINCHER. I have always thought so.

The SECRETARY. I think that the cooperative associations are fully entitled to it.

Mr. JONES. I think so too. But I was giving you their statement of the case, Mr. Secretary.

Mr. ASWELL. The association is a unit, and all the members belong to it.

Mr. GERNERD. It is the same as though it was a partnership firm of three, designated as a firm. There is a question in my mind whether that rebating would come in conflict with the ordinary term of rebating.

The SECRETARY. Well, it is the same argument as is used in the live stock commission business. The same objection is made to the admission of a cooperative live stock commission firm to an exchange. And it has no more merit there than it has here, I think.

Mr. TINCHER. Now I am frank to say that there is one amendment suggested, that is the first one, that I didn't get the meaning of.

Mr. THOMPSON. That is section 4, is it?

The SECRETARY. That is under (a) on page 3?

Mr. TINCHER. No; on page 2. Will you let me have that language again, Mr. Secretary?

Mr. THOMPSON. Section 4.

The SECRETARY. Section 4, on page 2, at the bottom of the page. Well, that reads: "That in addition to the taxes now imposed by law there is hereby levied a tax of 20 cents a bushel on every bushel involved therein, upon each contract of sale of grain for future delivery, except ——." And then you except contracts made by the actual producers, etc., under (a), and contracts made on the board of trade under (b).

Now, here, for example, is a cooperative selling agency which does not sell on the board of trade, which would bring it under the (b) exception, and which is not the actual owner of the grain. And that would seem to prevent that association from making a contract for future delivery on grain to be raised by its members, not on the board of trade, but with an exporter or with a foreign buyer, or with a foreign government.

Mr. TINCHER. I see. I don't think such contracts are, however, made now, but then there is no use taking any chance of hurting some one.

The SECRETARY. Well, of course, the expectation of many of these cooperative associations of grain growers is to do that sort of thing.

Mr. TINCHER. I see.

Mr. JONES. I don't think we ought to hamper that tendency at all.

The SECRETARY. I see no harm in adding there the words I suggested.

Mr. THOMPSON. What were your words, Mr. Secretary?

The SECRETARY. After the word "delivery" "made at, on, or in an exchange, board of trade, or similar institution or place of business." Now, by that you limit the tax to deals made on the board of trade, which leaves all other contracts open, you see.

Mr. TINCHER. Your suggestion is to add those words as a new paragraph?

The SECRETARY. No; continuing there after the word "delivery," to make it read, "delivery, made at, on, or in an exchange, board of trade, or similar institution or place of business."

Mr. TEN EYCK. May I ask you a question right there, Mr. Secretary? Take section (b), where it says, "where such contracts are made by or through a member of a board of trade," wouldn't that cover it? The farmers' cooperative organizations are members now, and therefore they make them through the board of trade.

The SECRETARY. Well, they may or may not, you know. They may make it direct.

Mr. TINCHER. Did you propose to add those on page 3?

The SECRETARY. Page 2.

Mr. THOMPSON. On page 2, right after the word "delivery."

Mr. TINCHER. Well, you want it after the word "except," don't you?

Mr. THOMPSON. No, before the word "except," and after the word "delivery."

The SECRETARY. Then the prohibition would only apply to deals made on the board of trade.

Mr. SINCLAIR. It reads: "That in addition to the taxes now imposed by law there is hereby levied a tax of 20 cents a bushel on every bushel involved therein, upon each contract of sale of grain for future delivery, made at, on or in an exchange, board of trade or similar institution or place of business."

Mr. THOMPSON. "Made at, on or in a board of trade or similar institution or place of business"?

Mr. SINCLAIR. "Or in an exchange, board of trade," and so forth. The word "exchange" is included.

The SECRETARY. Yes, I included "exchange," "an exchange, board of trade or similar institution or place of business."

Mr. JONES. Would that permit gambling and speculating on the outside, and the using of the figures on the Board of Trade as an index or as governing?

The SECRETARY. Well, my thought was it would simply permit unrestricted contract making for future delivery.

Mr. THOMPSON. By cooperative societies?

The SECRETARY. By cooperative associations or by any one else who wanted to make future deliveries or who wanted to buy. I don't think it would introduce any gambling element. I was thinking it would cover contracts made for actual grain.

The CHAIRMAN. That is that the people designated here might trade either on the Board of Trade or outside.

Mr. THOMPSON. You anticipate a broadening, Mr. Secretary, a building up of cooperative associations throughout the country, do you?

The SECRETARY. Yes.

Mr. TINCHER. There is just one thing now that you suggested that is bothering me a little, and that is whether it is proper in the limitation that you suggested to make an arbitrary limitation of the number of bushels for any dealer to have. For instance, if a man was actually buying for export more than a million bushels of wheat, I suppose he should not be deprived of his right to hedge a million bushels of wheat. I don't know how much they buy. Some of the big mills buy a considerable quantity of wheat for their own use.

The SECRETARY. Well, as I have said, if you can delegate authority to regulate that to your supervising power, then I am inclined to

think it would be better to do that. Then it could be adjusted to conditions. What do you think about that, Mr. Morrill?

Mr. MORRILL. Aren't you referring to a sale for actual export rather than a speculative transaction, Mr. Tincher?

Mr. TINCHER. Well, the man that buys or sells actual grain for export uses the market and uses this hedging proposition.

Mr. MORRILL. Certainly, but is that a speculative transaction?

Mr. TINCHER. Well, it would be a speculative transaction so far as the Board of Trade is concerned.

Mr. MORRILL. Not all transactions on future exchange are speculative transactions.

Mr. TINCHER. Well, I figure that any transaction on the future exchange which does not contemplate the actual delivery of the grain on that transaction is a speculative transaction, perhaps made in good faith to protect another transaction.

Mr. MORRILL. But you just said that you sold this grain for export.

Mr. SINCLAIR. He said he bought it for export.

Mr. TINCHER. Well, let us take an exporter—and I suppose you know all about this—and that exporter wants to buy a million bushels of grain for export. He will probably buy a million bushels of grain on the board of trade, and then the man that he is buying it of will probably sell a million bushels of grain or buy it, as the case may be; they use the board of trade in their hedging; we have had that in here before.

Mr. MORRILL. But the fact that they use the exchange does not necessarily make it a speculative transaction. We have two classes of transactions; we have speculative transactions and we have hedging transactions, and perhaps it might be considered that a transaction calling for actual delivery, that is, where actual delivery was made, was not a speculative transaction.

Mr. TINCHER. Your idea is that the million bushels provided here would not apply to the man that was actually buying for export a million bushels?

Mr. MORRILL. No.

Mr. TINCHER. Or selling?

Mr. MORRILL. No; nor to the man who was hedging his actual purchase.

Mr. TINCHER. Or the Crosby people?

Mr. MORRILL. No; if they were hedging their actual purchase for their mills.

Mr. TINCHER. It would not apply to Armour if he was actually exporting grain?

Mr. MORRILL. No.

Mr. TINCHER. Or actually buying?

Mr. MORRILL. It would apply to such a man as—well, I won't name him—but to some large speculator who is buying on the rise or selling for the fall, for the purpose of closing out his transaction and taking the profit.

Mr. SINCLAIR. Now, in the testimony that Mr. Barnes gave before the committee last winter—and Mr. Barnes is an exporter—he said that he frequently buys a couple of hundred thousand bushels of wheat, which is a cargo. He buys that to-day. He may not have an export bid, but it is all for export, but he doesn't like to carry it over. The market is so uncertain. So he sells that day, or at the

close of the market, and takes it back in the morning, and he says he does that until he gets a satisfactory bid from the foreign purchaser. Now, would that be termed speculative?

Mr. MORRILL. I don't know that that particular transaction would be termed speculative. There is one thing that we talked over when Mr. Wallace was considering this. The question was raised as to what would be considered speculative transactions, and it is to be observed that that is one of the things that the Secretary of Agriculture will determine as to each market, as to whether it is entitled to a designation, and it was felt that using the term "speculative transaction" would leave some freedom for the Secretary to determine in the case of each market whether it has met the conditions or not. There are different ways of going at that. That is not the most definite way, but it is a way that allows some latitude, and it seems to me that, as Mr. Wallace pointed out, it is desirable to have latitude in these matters. But it would certainly not be considered that a hedging transaction was a speculative transaction. In other words, a man who was engaged in using the market for hedging his cash grain business would not be a speculator.

Mr. SINCLAIR. Well, couldn't every fellow then claim that he was hedging?

Mr. MORRILL. No; he has got to show that he has a cash grain business to hedge.

Mr. TINCHER. Oh, they are all speculative transactions.

Mr. MORRILL. Not the hedging transactions.

The SECRETARY. The hedging transaction, Mr. Tincher, appeals to us as being the reverse of the speculative transaction; that is, trying to avoid the speculative feature of it. It is an insurance.

Mr. TEN EYCK. You can not hedge without the speculator taking the hedge.

The SECRETARY. But on the part of the man that does the hedging.

Mr. SINCLAIR. How are you going to determine which is the speculative transaction and which is the hedging transaction?

The SECRETARY. Well, by the amount of cash grain the man handles. Whether he is handling enough actual grain to justify that sort of an operation.

Mr. SINCLAIR. In other words, if he buys 1,000 bushels of cash grain you would only let him hedge a thousand bushels?

The SECRETARY. Well, that would be all he would have need to sell to make a hedge. That is a legitimate hedge.

Mr. SINCLAIR. If he hedged more than that then it would not be a legitimate transaction.

The SECRETARY. Well, if he bought 1,000 bushels of grain that would be all he would have to hedge.

Mr. MORRILL. During the war the Food Administration placed a limit of 200,000 bushels on speculative transactions, and they say they had no trouble in enforcing it. It is a matter of enforcing it.

Mr. TINCHER. If you adopt that as a matter of legislation in peace times you might destroy the market. I think a limitation of 200,000 bushels would be the saddest thing we could put in there.

Mr. MORRILL. When I mentioned that 200,000 bushels, I was not speaking in favor of the 200,000, but I am pointing out that it was the same kind of a limitation as the Secretary has suggested—a

million bushel limitation. But the point was that it was a limit on speculative transactions, and by framing it that way it leaves a latitude for the Secretary to determine in the case of each market whether it has stayed within the limit or gone without the limit.

Mr. RIDDICK. Let me ask you a concrete question. Here is a man who buys something over a million bushels. Say the limit was a million bushels. He is afraid the price may come down overnight, so he sells something over a million. You say that is not speculative, that is a hedge, and that would be lawful. Now how about the fellow he sells it to?

Mr. MORRILL. As you describe it I don't see where the hedge comes in. You say he bought over a million bushels. Has he a cash grain business?

Mr. RIDDICK. Yes; he has a cash grain business. He has bought something over a million bushels for export. He doesn't want to carry it for a week until the vessel is ready, so he goes in the market and sells. He is protecting himself. That is an insurance. But how about the man that he sells to?

Mr. MORRILL. Well, it would be determined by what the interest of the man that he sold to in the market was.

Mr. RIDDICK. He is a speculator.

Mr. MORRILL. A speculator?

Mr. RIDDICK. He would be a lawbreaker.

Mr. ——. No; it is not a question of whether the individual is a lawbreaker. It is a question of whether the exchange allows that kind of transaction to go on.

Mr. RIDDICK. They violate the rules of the exchange.

Mr. ———. They violate the rules of the exchange.

Mr. RIDDICK. One man would and the other man would not.

Mr. MORRILL. Yes. For the reason that the other man does not have to buy if he doesn't want to.

Mr. RIDDICK. It seems to me you can not discriminate between them.

Mr. SINCLAIR. Here is a case. We will say that here is a farmer that grows 20,000 bushels of grain every year—they often do that in my part of the country—and the price is suitable; say it is the first of September, and the man may decide that that is the price that he wants for his crop, and he sells on the Duluth Exchange or Minneapolis at that figure, 20,000 bushels. He may never send a bushel of that grain to Minneapolis or Duluth, but he sells it all locally when he thrashes, just as it comes. Now after he disposes of the grain at the market price, he buys back his sale. Has he been speculating. or has he been protecting himself?

Mr. MORRILL. No; in the case you describe he has been protecting his actual grain production, and in any event your subdivision (a) takes care of him anyhow.

Mr. RIDDICK. Yes; I see that, of course.

Mr. GERNERD. Mr. Tincher, is it your thought in the matter not to have any limitation at all?

Mr. TINCHER. It was my thought, yes—that is, I don't think with the recourse we were providing for that there would be any manipulation by reason of excessive transaction. But I want to eliminate manipulation, and if the man who is going to administer this law thinks that it is going to help to strengthen it by having a limitation, why, amen. Because I don't want the market manipulated any

more in the future as they have been in the past. I don't take any stock in the comparison of the limitation during the war, when they had a fixed price. We were guaranteed a fixed price by the government, and had a pleasant time. But I did figure that this would happen under this bill, that if we found that certain men, well known to the trade, were manipulating the market by the sale of so many bushels of wheat or the purchase of so many bushels of wheat for the purpose of manipulating, that we would have that information available, and then we would know how to legislate on the subject. However, I have no objection at all against putting a limitation in this bill.

The SECRETARY. Well, it would be a help to us I think if you would put some figure, make what you consider a reasonable figure to protect the legitimate interests, but I think it would be a help to us to put some figure in there. If you feel that a million bushels is too small, why then some larger figure. I rather assumed, from what I have been able to read of the testimony, that probably a million bushels would be sufficient. That means all at one time.

Mr. RIDDICK. Well, isn't it true that at some seasons of the year operations taking in a half a million bushels would do more to manipulate the market that at other times?

The SECRETARY. That is quite true. That is why when I was talking before I suggested that if it was practical to lodge that power in the supervisory body it would be logical.

Mr. TINCHER. I think so too.

Mr. RIDDICK. Yes.

The SECRETARY. What you want us to prevent is undue manipulation of the market, if the law is passed; any practices tending to unduly affect the market either up or down. That is your purpose, isn't it?

The CHAIRMAN. Would you suggest fixing the maximum, and leave it to the discretion of the Secretary what might be fixed below the maximum?

The SECRETARY. Well, if it is practical to do that. Of course in administering a law the more direct the law is the easier it is to administer in one sense, even though you don't always get as good results from it.

The CHAIRMAN. But conditions change from time to time.

The SECRETARY. Yes; conditions change from time to time. As Mr. Riddick says, the dumping of 500,000 bushels at one time might have a much more harmful effect on the market than the dumping of a million bushels or a million and a half at another season, depending upon the volume of business that is being done.

Mr. TINCHER. The only other reason why I didn't take the limitation as seriously, probably, as I should have, is, that a man that wanted to manipulate the market would not have any conscientious scruples against using other names.

The SECRETARY. Well, if we have men at the markets, competent men, that sort of thing could not go on very long or very often until we would know something about it.

Mr. TINCHER. No; that is right.

The SECRETARY. Of course, the success of this whole thing depends upon personnel; upon intelligent supervision.

The CHAIRMAN. Mr. Secretary, I believe you suggested that Mr. Morrill make a statement.

The SECRETARY. Yes; I suggested that if you had any doubts about one or two suggestions that I made there, or in fact on the whole matter, I think Mr. Morrill, who knows more about that, could explain.

The CHAIRMAN. Whatever you suggest, Mr. Secretary.

The SECRETARY. I would like to have you hear Mr. Morrill.

The CHAIRMAN. Very well; we will be glad to hear Mr. Morrill.

Mr. TINCHER. Now, let me make this suggestion. Let us take these amendments up and see how the committee feels about them. We will keep Mr. Morrill right here with us and take these amendments up one at a time, and see if there is any disagreement or misunderstanding in the committee, and, if so, we will have him explain them.

The CHAIRMAN. We will hear from Mr. Morrill.

STATEMENT OF MR. CHESTER MORRILL, ASSISTANT CHIEF OF BUREAU OF MARKETS.

The CHAIRMAN. We will take up the first amendment then, Mr. Morrill.

Mr. MORRILL. The first amendment on page 2, at the bottom, that the Secretary discussed, which provided for the addition, after the word "delivery" in line 24, of the words "made at, on, or in an exchange, board of trade, or similar institution or place of business," does not apply to section 3, but to section 4, because it was assumed that this bill was dealing with future trading as such on grain exchanges, and, moreover, because the exception in subdivision (*b*) on page 3 requires that all contracts that will be free from tax that are not included in subdivision (*b*) shall be made through the members of boards of trade of these designated contract markets. Consequently if you don't make this amendment to section 4 you will have the condition that any man who makes a contract which may be considered to be for future delivery of grain outside of a board of trade must do it nevertheless through a member of a board of trade, and you have given the members of boards of trade a monopoly of future grain business.

Mr. THOMPSON. But this would give the cooperative societies a chance?

Mr. MORRILL. I am not now talking about the cooperative society proposition. I can cover that in a moment. I am talking about the effect of leaving this tax of 20 cents a bushel on transactions both on and off the exchanges.

The CHAIRMAN. Is there much trading outside of the exchanges?

Mr. MORRILL. What is technically known as future trading is not done off the future exchanges. But the language here is "contract of sale of grain for future delivery."

Mr. TINCHER. I have no objection to it going in.

Mr. WILLIAMS. I think it should go in.

The CHAIRMAN. Do you want it passed on?

Mr. TINCHER. Yes.

The CHAIRMAN. Do you offer it as an amendment, Mr. Tincher?

Mr. TINCHER. Yes; I move that it be adopted.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the amendment. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor signify by saying aye. Those opposed no. It is agreed to.

Mr. MORRILL. Now, in subdivision (*a*) the suggestion was that there should be added the words "or is an association of such owners or growers of grain, or of such owners or renters of land."

Mr. PURNELL. Let me suggest that you read it then as it would read taken all together.

Mr. MORRILL. Taken all together it would read this way:

Where the seller is at the time of the making of such contract the owner of the actual physical property covered thereby or is the grower thereof or in case either party to the contract is the owner or renter of land on which the same is to be grown, or is an association of such owners or growers of grain, or of such owners or renters of land, or.

Mr. TINCHER. I move that we adopt the amendment suggested.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. All those in favor signify by saying aye. Those opposed no. It is agreed to.

Will that take care of most organizations, Mr. Morrill, such, as for instance, farmers who cooperate under the laws of the State to sell their crops?

Mr. MORRILL. This might not, at least there might be some question as to whether it would take care of the kind of so-called cooperation which is a stock corporation, and which has in its membership not only producers but bankers and warehousemen and so forth; there might be some question as to whether this takes that in. But in view of the change in section 4 which limits the operation of section 4 to the future exchanges, that question does not become quite so important.

The CHAIRMAN. No.

Mr. MORRILL. Provided later on you admit these associations to membership.

The CHAIRMAN. I see. Now will you kindly take up the next one, Mr. Morrill?

Mr. MORRILL. On page 4, in line 6, the Secretary raised the question as to whether it was desirable to retain the phrase "unaffected by local conditions," because it seemed doubtful whether there is any market of which it may strictly be said that the prices are "unaffected by local conditions." It frequently happens, even at a market such as Chicago, that transportation trouble will tie up grain and affect the price of the market until that transportation trouble is straightened out.

The CHAIRMAN. The amendment is to strike out the words "unaffected by local conditions"?

Mr. MORRILL. The amendment is to strike out the words "unaffected by local conditions."

Mr. TINCHER. I have no objection to striking them out. However, the words are not subject to that construction. The meaning—and I

think it is clear enough—was that that should be a market that would reflect the general condition. However, I don't want to place any objection to it. I move to strike them out.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion signify by saying aye. Opposed, no. It is carried. The amendment is agreed to.

Mr. MORRILL. In subdivision (*b*), on page 4, in line 3, the suggestion was that after the word "showing" insert "the details and terms of." It is not absolutely essential that that go in at that particular place, but the idea should be clearly expressed in that subdivision somewhere, because it is not now clearly expressed in it.

Mr. TINCHER. I move to insert those words.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion signify by saying aye. Those opposed, no. It is agreed.

Mr. HAYS. Just a moment. May I hear those words again that it is proposed to insert there?

Mr. THOMPSON. "The details and terms of" after the word "showing," in line 13.

Mr. HAYS. Very well.

The CHAIRMAN. Will you kindly take up the next one, Mr. Morrill?

Mr. MORRILL. On page 5, in subdivision (d), we have been discussing that pretty thoroughly with the Secretary, and I take it that you would like to have that expressed differently if thereby you could leave the matter more in the discretion of the Secretary of Agriculture than it is now. I am not prepared to make a suggestion on that because it is a little difficult to frame something like that.

The CHAIRMAN. By giving you and Mr. Tincher a little time do you think you could draft the language?

Mr. MORRILL. Yes.

Mr. TINCHER. Read the language you have.

Mr. MORRILL. The language we now have is: "Including a limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person."

Mr. TINCHER. Now, then, stop right there. Add the words, instead of what you have: "As prescribed by the Secretary of Agriculture."

Mr. JONES. "As may be prescribed."

Mr. TINCHER. "As may be prescribed by the Secretary of Agriculture."

Mr. MORRILL. What policy or what theory does the Congress lay down for the Secretary to follow in determining that limitation?

Mr. TINCHER. That he will enforce such rules on the exchanges with reference to one man's dealings in futures, as will do away with manipulation of the market, and that we will not handicap him in any way by putting a million bushels or any other number of bushels

into this law, because a condition might arise where he would want to change that. And there is no question in the world but what we can give him the power to make that regulation.

Mr. MORRILL. You think, Mr. Tincher, it is sufficient in the opening language where it says, "When the government thereof provides for the prevention of the manipulation of prices by the dealers or operators upon such board," including the limitation, and so on?

Mr. TINCHER. Yes.

Mr. MORRILL. Possibly that is so. However, if you stop at the point that you suggested I think that you ought to go a little bit further: "By or on behalf of the same person, commonly called open trades, in speculative transactions."

Mor. CLAGUE. Yes.

Mr. TINCHER. Yes, I think that is true. Now this is one of your pets, that limitation, Mr. Chairman.

The CHAIRMAN. I am not insisting on it. I am satisfied with leaving the limitation to the discretion of the Secretary.

Mr. TINCHER. I would rather follow you on that than myself. My idea is to leave bushels out.

The CHAIRMAN. Well, then, I would suggest that we leave that to Mr. Tincher and Mr. Morrill, and if you can find any better language, it may be inserted in the bill.

Mr. TINCHER. I can't find any better language, but I would start there as you suggest.

The CHAIRMAN. Mr. Morrill, if you had a little time do you think you could supply language more satisfactory or more certain?

Mr. MORRILL. I might be able to do so. Might I suggest—and this is merely a suggestion—that I take this language that Mr. Tincher suggested, and if you approve the principle involved, you could go that far, and then I might suggest any change which might occur to me as more effective than this.

The SECRETARY. Mr. Chairman, may I suggest that Mr. Smith, of the department, is here with us, and he has had a good deal of experience in actual dealings on the boards of trade, and I would like to have you ask him his opinion as to the limitation there.

STATEMENT OF MR. ROLLIN E. SMITH, GRAIN SUPERVISOR, BUREAU OF MARKETS.

The CHAIRMAN. Mr. Smith, you are connected with the department now, are you?

Mr. SMITH. Yes.

The CHAIRMAN. In what capacity?

Mr. SMITH. Under Mr. George Livingston, Bureau of Markets.

The CHAIRMAN. Where are you located?

Mr. SMITH. I am now located in Washington. I was formerly in Chicago.

The CHAIRMAN. You have had experience with the board of trade?

Mr. SMITH. Yes, sir; I traded in the pit for four years in Minneapolis.

The CHAIRMAN. We would like to hear from you. Would you suggest any other language here?

Mr. SMITH. Well, I should like to see a limitation in bushels, but it would be all right to leave it to the discretion of the Secretary.

But by all means that limitation should not be greater than 1,000,000 bushels, and I can give you reasons for it.

Now it has been suggested here about the man who wants to buy or sell 1,000,000 bushels, and the question has been raised about speculative transactions, and so forth. But take the other side of it. Why, there are 300 brokers there, and each one would sell him and make that up in 30 seconds.

The CHAIRMAN. What would you say about leaving it to the discretion of the Secretary not to exceed 1,000,000 bushels? You might fix it any amount below that to meet conditions.

Mr. SMITH. Yes; that would be good.

The CHAIRMAN. Well, do you think that a million bushels is quite high enough?

Mr. SMITH. Yes, it is; and I know that some of the board of trade themselves would be glad to know that it would be a million.

The CHAIRMAN. This bill is not designed to do away entirely with speculation or what we call hedging. The committee wants to draft a conservative bill.

Mr. SMITH. Let me say why there should be a limitation. May I have a moment?

The CHAIRMAN. Yes.

Mr. SMITH. In ordinary markets, when there is nothing especial going on, I might say that no limitation is necessary. It is only when there is a big deal going on. Now, when the hedging is the heaviest, and when the movement of grain is so great, then is when the big speculators, what we call the manipulators, men who trade in five, ten, or 20,000,000 bushels come in—they sell short because all the elevators are selling to hedge. So they help them along and help the depression.

Now, on the other hand, later in the season when there is no hedging, or little, and the elevator companies are taking the hedges off, then the big traders may buy millions and help the advance, and then turn around and may sell 20,000,000 in a day if things don't go right. That is why there should be a limit on the amount that is bought and sold. It is not necessary in the immediate course of business; it is just in the big, centralized transactions.

Mr. TINCHER. Of course the reason I get scared when you talk about limiting the sales of wheat on the board of trade to a million bushels is because my district produces considerably more wheat than that. You may be entirely right, and no doubt are. I don't pretend to argue it. I want to stop the manipulators on the grain market, and if that is the way to do it, all right.

The CHAIRMAN. Do you offer the amendment?

Mr. TINCHER. This is my personal feeling. I would feel better about presenting it on the floor if that limitation were placed entirely on the Secretary.

Mr. RIDDICK. May I make this suggestion in section (*d*): "When the Government thereof provides for the prevention of the manipulation of prices by the dealers or operators upon such board, and limits the amount of future contracts owned by any member at any one time to such amounts as may be prescribed by the Secretary of Agriculture."

Mr. TINCHER. That was my idea.

Mr. MORRILL. That does not distinguish between hedging and speculation.

Mr. TINCHER. Well, his idea is better than that. That is, future contracts purely of speculative character.

Mr. RIDDICK. I fear you can not distinguish.

Mr. TINCHER. I think so.

The CHAIRMAN. Let Mr. Morrill read his amendment.

Mr. MORRILL. "Including a limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person, commonly called open trades, in speculative transactions."

Mr. GERNERD. That sounds pretty good.

The CHAIRMAN. Any amendment to be offered?

Mr. TINCHER. Now read it the way we had suggested fixing it.

Mr. MORRILL. I have read it just as you proposed.

The SECRETARY. There is no reference to the amount at all.

Mr. MORRILL. I will be glad to read it again.

Mr. TINCHER. I wish you would read it again.

Mr. MORRILL. "Including a limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person, commonly called open trades, in speculative transactions."

Mr. TINCHER. Well, that would be my idea of an ideal proposition.

Mr. WILLIAMS. Well, shouldn't the paragraph have in it, "As may be provided by the Secretary of Agriculture"?

Mr. MORRILL. That is accomplished by reason of the fact that this is one of the conditions of the designation of the market, and the Secretary determines whether or not it has met this requirement in order to designate it.

Mr. WILLIAMS. I see.

Mr. TINCHER. I think that, under the general text of this bill, would give the Secretary the power sometimes to make the limitation less than 1,000,000 bushels at some time if the conditions warrant it, and at other times to make it more, if the conditions warrant it. They think they are going to raise 50,000,000 in my district next year.

Mr. GERNERD. If we put a limitation on it they may say, "You are legislating against our selling our grain."

Mr. MCLAUGHLIN of Nebraska. I move the adoption of the amendment.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. You move the amendment as read by Mr. Morrill?

Mr. MCLAUGHLIN of Nebraska. Yes.

Mr. PURNELL. That doesn't fix any limitation.

Mr. MORRILL. No, it leaves it to the Secretary of Agriculture to determine whether the limitation made by the exchange itself is satisfactory.

Mr. TINCHER. That will give you leeway. If they can show you that it is wrong, you have got leeway.

Mr. TEN EYCK. And it can be corrected a year from now.

Mr. HAYS. Let the whole section be read.

Mr. MORRILL. Subdivision (*d*) on page 5, beginning with line 5: "When the government thereof provides for the prevention of the manipulation of prices by the dealers or operators upon such board.

including a limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person, commonly called open trades, in speculative transactions."

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion signify by saying aye. Those opposed, no. It is agreed to.

Mr. MORRILL. Now the next change involves a question as to whether subdivision (*e*) beginning on line 8 of page 5 should be retained. That is the subdivision which provides that no board of trade shall be eligible to designation as a contract market if such board of trade or any member thereof operates or controls a privately owned or leased telegraph or telephone line connected with any city, town, or community other than one in which another "contract market." I presume there is a word or two to follow.

Mr. SINCLAIR. "Is located." I move to strike it out.

(The motion was duly seconded.)

The CHAIRMAN. The motion is to strike out. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion say aye. Those opposed no. The ayes seem to have it—the ayes have it. The amendment is agreed to.

Mr. MORRILL. You have acted on that. I merely want to call your attention to one condition that that subdivision (*e*) does not provide for. There is nothing at all to prevent a member of a firm which previously has had leased wires, from separating himself from the firm, separating himself from the exchange, and continuing to operate the wires for the benefit of the members of the exchange.

Mr. TINCHER. The senior author of the bill and myself both agreed that we wanted to legislate about the private wire, but we apparently do not know what we want to do, and the grain exchanges don't know what they want to do, and we don't seem to be able to just suggest the proper paragraph there, so I expect we had better leave it out.

Mr. MORRILL. Well, as a matter of fact, what you are striking at is the use of the wire, not the ownership or the leasing of the wire.

Mr. GERNERD. Why not correct it?

Mr. TINCHER. Well, I have heard more of this testimony than Mr. Morrill has, and I am frank to say that I don't know just what law we ought to pass concerning it, and I am sure that he would not say.

Mr. MORRILL. I would not pretend to say.

Mr. TINCHER. They have promised that they are going home and by their own rules and regulations they are going to cure the evils of the private wire. Now maybe we had better wait and see what they do.

The SECRETARY. Well, if you adopt the bill, and we have this supervisory power, at the end of the year we will know more about this private wire matter.

Mr. GERNERD. How will you learn?

The SECRETARY. We have authority to inquire into every trade made on the board of trade. We will receive detailed reports.

Mr. MCLAUGHLIN of Nebraska. Let us have the new section.

The CHAIRMAN. What would you say about the suggestion that the Secretary regulate these wires?

The SECRETARY. Well, we have authority under that to inquire into all of this business, under the general provisions of your bill.

Mr. PURNELL. Mr. Chairman, one of my wires is crossed. I still don't get clearly in my mind how the secretary is going to control under section (*d*) the trade, how there will be a limitation supervised by the secretary.

Mr. MORRILL. I will tell you.

Mr. PURNELL. Now, you go to section 5 and you say that the Secretary of Agriculture is authorized to designate certain boards and contract markets when they comply with the following conditions and requirements.

Mr. MORRILL. Yes. Well, let us start a little sooner than that. In section 4 the contracts which are exempted by section (*b*) are the contracts which are made through members of boards of trade on contract markets, and contract markets are designated in accordance with section 5, and contract markets may be undesignated, in accordance with section 6, and when they are undesignated the contracts made on them are not exempt from tax.

Mr. SINCLAIR. The tax picks them up, doesn't it?

Mr. MORRILL. Yes.

The CHAIRMAN. Kindly take up the next amendment.

Mr. MORRILL. Now the next suggestion was as a substitute for (*e*), which has been stricken out. Insert these words: "When the government thereof admits to membership and all privileges thereof on such board of trade lawfully formed and conducted co-operative associations of producers having adequate financial responsibility." And the question was raised whether that sufficiently took care of it. I think possibly an added phrase would take care of it. I noted it down roughly, and maybe the language will have to be changed a little bit, but you can add the words, "Regardless of the manner in which they divide their surplus earnings among their members."

Mr. TINCHER. I don't think we ought to do that.

Mr. GERNERD. I doubt that myself.

Mr. TINCHER. That will be calling the attention of Congress to the little quarrel that we are settling between them now. Of course if they can show the Secretary of Agriculture that they ought not to let this institution join because of certain practices which they are engaged in, why he ought not to make that a condition precedent. And when we go on the floor with this bill, with a bill of this character, we are only going to have one fight, and that is going to be a fight that we are discriminating in favor of a certain class, and I believe that additional item would be bad.

Mr. HAYS. A little while ago, when this suggestion was made, you agreed that it would be a very good limitation—"on such terms as may be prescribed by the Secretary of Agriculture."

The SECRETARY. Yes; that would be all right, although I doubt whether you need even that.

Mr. SINCLAIR. This is one of the conditions.

The SECRETARY. This is one of the conditions, and the Government will require them to comply with it. I doubt whether you need anything more.

Mr. TINCHER. I wouldn't add to it for another reason. In Missouri the legislature has passed a law requiring them to admit them. They are going to test the constitutionality of that law. They can not test any constitutionality in this one if we don't put the express direction on the Secretary.

The SECRETARY. And they can not get in to be a contract market unless they comply with these.

Mr. MORRILL. Do you think that anybody is going to try to get a membership under that law?

Mr. TINCHER. I never read it. I suppose it is something like this Minnesota grain-control law.

The CHAIRMAN. Is there any motion?

Mr. TINCHER. I move that we adopt the amendment as suggested by the Secretary.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

Mr. THOMPSON. Let us have it read again.

The CHAIRMAN. Mr. Morrill, will you kindly read that section?

Mr. MORRILL. Subdivision (*e*), beginning on line 8, page 5:

"When the Government thereof admits to membership and all privileges thereof on such board of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility."

The CHAIRMAN. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion signify by saying, aye. Those opposed, no. The amendment is agreed to.

Mr. MORRILL. The next change is on page 7, in section 8, beginning on line 20: "That the Secretary of Agriculture may," then insert "make such investigations as he may deem necessary to ascertain the facts regarding the operations of grain future exchanges, and may"—that is all of the insert—"publish from time to time, in his discretion," then insert "the results of such investigations, and." And the rest remains as it is.

Mr. TINCHER. I move that the amendment be adopted as suggested.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor signify by saying, aye. Opposed, no. The amendment is agreed to.

Mr. MORRILL. At the top of page 8, in line 1, after the word "record," insert the words, "or make a report." And in line 2, change that to read "sections 4 and 5."

Mr. TINCHER. I move that the amendment be adopted as suggested.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor of the motion signify by saying aye. Those opposed, no. It was agreed to.

Mr. THOMPSON. How about the appropriations.

Mr. MORRILL. Yes, that is what I am going to take up next.

Mr. TINCHER. Make that section 12.

Mr. PURNELL. Let us go back to that limitation.

The CHAIRMAN. Do you use the word "reasonable" in connection with the limitation as to the number of bushels?

Mr. MORRILL. I don't see any objection to that.

The CHAIRMAN. Would there be any objection to it?

Mr. PURNELL. Well, who is going to say when a limitation is within the bounds of reason, as is clearly intended by this committee?

Mr. MORRILL. As the bill is framed, with this amendment, the duty is placed primarily upon the board of trades to determine the limitation.

Mr. PURNELL. Yes, but here is what your amendment says, though: "Including a limitation." Now under that couldn't they fix it at 10,000,000 bushels?

Mr. MORRILL. It would not meet the requirement if it did not provide for the prevention of the manipulation of prices by the dealers or operators upon that board.

Mr. PURNELL. Then that raises a question of fact.

Mr. MORRILL. That raises a question of fact.

Mr. PURNELL. That raises a question of fact as to what is sufficient to constitute a manipulation.

Mr. MORRILL. Yes. The Secretary would have to determine.

Mr. PURNELL. I don't see yet—it may be one of these cases where the head is a little thick to-night, but I don't see yet how the Secretary is going to have the discretion to do the thing we want him to do. The board fixes the limitation.

Mr. MORRILL. Yes.

Mr. PURNELL. And in order to be designated as a contract market they must fix a limitation.

Mr. MORRILL. They must fix the limitation. Now, suppose they come to the secretary with an application for designation in accordance with this law, and they show in their rules, and the secretary finds in their rules, a provision that any person may trade up to 20,000,000 bushels at any one time. Now, the secretary may decide that 20,000,000 bushels does not prevent manipulation.

Mr. PURNELL. Well, the point I am making is if we give the secretary sufficient power and latitude here in granting these requests to refuse to designate one of those boards as a contract market if they should come in with that kind of a showing.

Mr. MORRILL. The point of it is that you have given him all the latitude.

Mr. PURNELL. That is what I want to know.

Mr. MORRILL. Well, that is what you have done.

Mr. TINCHER. He has got it.

Mr. PURNELL. The latitude to change this rule from time to time.

Mr. MORRILL. Yes.

The CHAIRMAN. Mr. Morrill, you had in mind what, in the opinion of the secretary, is the reasonable limitation?

Mr. MORRILL. Yes; what would effect the prevention of manipulation.

Mr. PURNELL. Let us put in the word "reasonable."

Mr. MORRILL. I don't see that it would hurt.

Mr. TINCHER. Let us put in the word "reasonable."

The CHAIRMAN. Do you make that as a motion?

Mr. TINCHER. Yes; I make that motion.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion that we adopt the amendment and insert the word "reasonable." Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor signify by saying aye. Opposed no. It is agreed to.

Now proceed, Mr. Morrill.

Mr. MORRILL. Now in order to lay the basis for whatever appropriation may be necessary and proper to carry out the purposes of this law, I would suggest that you add a new section to be called Section 12, which would read something like this:

That the Secretary of Agriculture may cooperate with any department or agency of the Government, any State or department, agency or political subdivision thereof, or any person; and shall have the power to appoint, remove, and fix the compensation of such officers and employees not in conflict with existing law, and make such expenditures for rent outside the District of Columbia, printing, telegrams, telephones, law books, books of reference, periodicals, furniture, stationery, office equipment, travel and other supplies and expenses as shall be necessary to the administration of this act in the District of Columbia and elsewhere.

The language which I am reading is taken from the conference report on the cold storage bill.

And there is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, such amount as may be necessary for such purposes.

Mr. TINCHER. I move that we adopt that.

(The motion was duly seconded.)

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor say aye. Opposed, no. It is agreed to.

Mr. PURNELL. I will make the motion that Mr. Tincher be authorized to report the bill as amended, and that the chairman be authorized to get action on it as soon as possible.

(The motion was duly seconded.)

Mr. TINCHER. Will you make a part of the motion that I have the right to reintroduce the bill?

Mr. PURNELL. To reintroduce the bill exactly as the committee has agreed to.

The CHAIRMAN. You have heard the motion. Are you ready for the question?

(The question was called for.)

The CHAIRMAN. Those in favor signify by saying aye. Those opposed, no. It is unanimously carried.

(Thereupon, at 9.15 o'clock p. m., May 2, 1921, the hearings on future trading were closed.)

The bill agreed to is printed as follows:

A BILL Taxing contracts for the sale of grain for future delivery, and options for such contracts, and providing for the regulation of boards of trade, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act shall be known by the short title of "The Future Trading Act."

SEC. 2. That for the purposes of this Act "contract of sale" shall be held to include sales, agreements of sale, and agreements to sell. That the word "person" shall be construed to import the plural or singular and shall include individuals, associations, partnerships, corporations, and trusts. That the word "grain" shall be construed to mean wheat, corn, oats, barley, rye, and sorghum. The words "board of trade" shall be held to include and mean any exchange or association, whether incorporated or unincorporated, of persons who shall be engaged in the business of buying or selling grain or receiving the same for sale on consignment. The act, omission, or failure of any official, agent, or other person acting for any individual, association, partnership, corporation, or trust within the scope of his employment or office shall be deemed the act, omission, or failure of such individual, association, partnership, corporation, or trust, as well as of such official, agent, or other person.

SEC. 3. That in addition to the taxes now imposed by law there is hereby levied a tax of 20 cents a bushel on every bushel involved in such transactions, upon each and every privilege or option for a contract either of purchase or sale of grain, intending hereby to tax the transactions known to the trade as "privileges," "bids," "offers," "puts and calls," "indemnities," or "ups and downs."

SEC. 4. That in addition to the taxes now imposed by law there is hereby levied a tax of 20 cents a bushel on every bushel involved therein, upon each contract of sale of grain for future delivery made at, on, or in an exchange, board of trade, or similar institution or place of business, except—

(a) Where the seller is at the time of the making of such contract the owner of the actual physical property covered thereby, or is the grower thereof, or in case either party to the contract is the owner or renter of land on which the same is to be grown, or is an association of such owners, or growers of grain, or of such owners or renters of land; or

(b) Where such contracts are made by or through a member of a board of trade which has been designated by the Secretary of Agriculture as a 'contract market," as hereinafter provided, and if such contract is evidenced by a memorandum in writing which shows the date, the parties to such contract and their addresses, the property covered and its price, and the terms of delivery, and provided that each board member shall keep for a period of three years from the date thereof and for such longer period as the Secretary of Agriculture may direct a permanent record of such contract for future delivery.

SEC. 5. That the Secretary of Agriculture is hereby authorized and directed to designate boards of trade as "contract markets" when, and only when, such boards of trade comply with the following conditions and requirements:

(a) When located at a terminal market upon which cash grain is sold in sufficient volumes and under such conditions as fairly to reflect the general value of the grain and the difference in value between the various grades of grain.

(b) When the government thereof provides for the making and filing of a record and reports, in accordance with the rules and regulations and in such manner and form as may be prescribed by the Secretary of Agriculture, showing the details and terms of all transactions entered into by the board or the members thereof, either in cash grain or for future delivery, and which record shall at all times be open to the inspection of any representative of the United States Department of Agriculture and United States Department of Justice, and such record shall be in permanent form and shall show the parties to all such contracts, any assignments or transfers of such contract, the parties to and terms of such assignments, and the manner in which said contract is fulfilled, discharged, or terminated.

(c) When the government thereof prevents the dissemination, by the board or any member thereof, of fake, misleading, or inaccurate reports concerning crop or market information or conditions that affect or tend to affect the price of commodities.

(d) When the government thereof provides for the prevention of the manipulation of prices by dealers or operators upon such board, including a reasonable limitation upon the total quantity of grain of the same kind covered by contracts unfulfilled or unsettled at any one time by or on behalf of the same person commonly called "open trades" in speculative transactions.

(e) When the government thereof admits to membership thereof and all privileges thereon on such boards of trade lawfully formed and conducted cooperative associations of producers having adequate financial responsibility.

SEC. 6. That any board of trade desiring to be designated a "contract market" shall make application to the Secretary of Agriculture for such designation and accompany the same with a showing that it complies with the above conditions, and with a sufficient assurance that it will continue to comply with the above requirements. The Secretary of Agriculture is authorized to suspend for a period not to exceed six months or to revoke the designation of any board of trade as a "contract market" upon a showing that such board of trade has failed or is failing to comply with the above requirements or is not enforcing its rules of government made a condition of its designation as set forth in section 5. Such suspension or revocation shall only be after a notice to the officers of the board of trade affected and upon a hearing: *Provided*, That such suspension or revocation shall be final and conclusive unless within fifteen days after such suspension or revocation by the Secretary of Agriculture such board of trade appeals to the circuit court of appeals for the circuit in which it has its principal place of business by filing with the clerk of such court a written petition praying that the order of the Secretary of Agriculture be set aside or modified in the manner stated in the petition, together with a bond in such sum as the court may determine, conditioned that such board of trade will pay the costs of the proceedings if the court so directs. The clerk of the court in which such a petition is filed shall immediately cause a copy thereof to be delivered to the Secretary of Agriculture, and the Secretary of Agriculture shall forthwith prepare, certify, and file in the court a full and accurate transcript of the record in such proceedings, including the notice to the board of trade, a copy of the charges, the evidence, and the report and order. The testimony and evidence taken or submitted before the Secretary of Agriculture duly certified and filed as aforesaid as a part of the record, shall be considered by the court as the evidence in the case. The proceedings in such cases in the circuit court of appeals shall be made a preferred cause and shall be expedited in every way. Such a court may affirm or set aside the order of the commission or may direct the Secretary of Agriculture to modify his order. No such order to the Secretary of Agriculture shall be modified or set aside by the circuit court of appeals unless it is shown by the board of trade that the order is unsupported by the weight of the evidence or was issued without due notice and a reasonable opportunity having been afforded to such board of trade for a hearing, or infringes the Constitution of the United States, or is beyond the jurisdiction of the Secretary of Agriculture.

SEC. 7. That the tax provided for herein shall be paid by the seller, and such tax shall be collected either by the affixing of stamps or by such other method as may have been prescribed by the Secretary of the Treasury by regulations, and such regulations shall be published at such times and in such manner as shall be determined by the Secretary of the Treasury.

SEC. 8. That the Secretary of Agriculture may make such investigations as he may deem necessary to ascertain the facts regarding the operations of future exchanges and may publish from time to time, in his discretion, the results of such investigation and such parts of reports made to him under this Act, and such statistical information gathered therefrom, as he may deem of interest to the public.

SEC. 9. That any person who shall fail to evidence any such contract by a memorandum in writing, or to keep the record, or make a report, or who shall fail to pay the tax, all as provided in sections 4 and 5 hereof, shall pay in addition to the tax a penalty equal to 50 per centum of the tax levied against him under this Act and shall be guilty of a misdemeanor, and upon conviction thereof, be fined not more than $10,000 or imprisoned for not more than one year, or both, together with the costs of prosecution.

SEC. 10. That if any provision of this Act or the application thereof to any person or circumstances is held invalid, the validity of the remainder of the Act and of the application of such provision to other persons and circumstances shall not be affected thereby.

SEC. 11. That no fine, imprisonment, or other penalty shall be enforced for any violation of this Act occurring within sixty days after its passage.

SEC. 12. The Secretary of Agriculture may cooperate with any department or agency of the Government, any State, Territory, District, or possession, or department, agency or political subdivision thereof, or any person; and shall have the power to appoint, remove, and fix the compensation of such officers and employees, not in conflict with existing law, and make such expenditures for rent outside the District of Columbia, printing, telegrams, telephones, law books, books of reference, periodicals, furniture, stationery, office equipment, travel, and other supplies and expenses as shall be necessary to the administration of this Act in the District of Columbia and elsewhere, and there is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, such sums as may be necessary for such purposes.

○

Y 4.AG 8/1: F 98/4 C.1
Future trading, hearin
Stanford University Libraries
3 6105 045 076 838